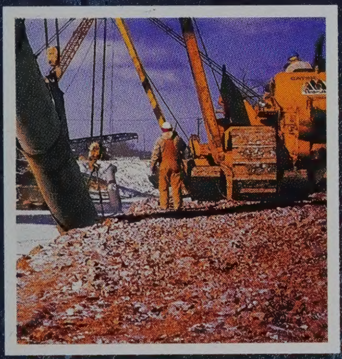
TRANSCANADA PIPELINES



ANNUAL REPORT 1989

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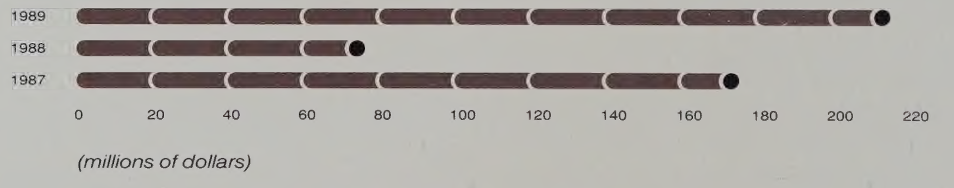
BUILDING FOR THE FUTURE Growth—driven by strong North American demand for natural gas—is the keynote for TransCanada PipeLines as it enters the 1990s. In 1989, the company launched its most ambitious expansion ever, adding capacity to its system with a $631 million program to construct additional pipeline and compression facilities on its mainline. Expansion is expected to continue at a very strong pace over the next several years.

The 1990 Annual Meeting of Shareholders is scheduled for Monday, April 30, 1990 at 10:30 a.m. at the Westin Hotel, Winnipeg, Manitoba.

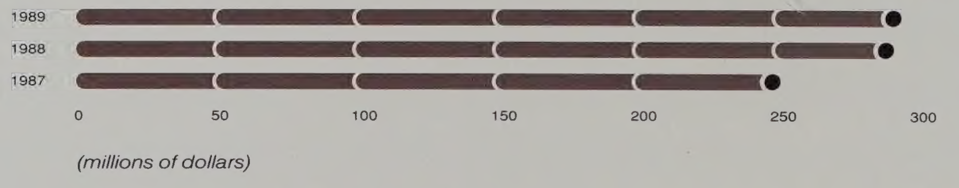
TRANSCANADA PIPELINES, A CANADIAN COMPANY, IS ONE OF THE LEADING TRANSPORTERS AND MARKETERS OF NATURAL GAS, WITH ASSETS EXCEEDING $4 BILLION. SINCE COMPLETION OF ITS ORIGINAL PIPELINE IN 1958, THE COMPANY HAS LINKED WESTERN CANADIAN PRODUCING FIELDS TO NATURAL GAS MARKETS IN EASTERN CANADA AND THE UNITED STATES. TODAY TRANSCANADA OWNS AND MANAGES ONE OF THE WORLD'S LONGEST PIPELINES, WITH MORE THAN 11 000 KILOMETRES OF PIPE STRETCHING ACROSS FOUR PROVINCES FROM ALBERTA TO QUEBEC. IT ALSO HAS INVESTMENTS IN OTHER MAJOR PIPELINE SYSTEMS IN CANADA AND THE U.S. THROUGH ITS WHOLLY-OWNED SUBSIDIARY, WESTERN GAS MARKETING LIMITED, TRANSCANADA IS THE MAJOR BUYER OF WESTERN CANADIAN NATURAL GAS. WESTERN GAS MARKETING ADMINISTERS LONG-STANDING NATURAL GAS PURCHASE AND SALES CONTRACTS AND COMPETES FOR NEW MARKETS IN CANADA AND THE U.S. THROUGH OTHER SUBSIDIARIES, TRANSCANADA IS INVOLVED IN COMBINED-CYCLE POWER GENERATION USING NATURAL GAS AS FUEL; ADVANCED PIPELINE INSPECTION TECHNOLOGY AND SERVICE; AND THE MANUFACTURE AND WORLDWIDE MARKETING OF A PREMIUM-QUALITY THERMAL CARBON BLACK USED IN A WIDE VARIETY OF INDUSTRIAL APPLICATIONS. TO MEET RISING NORTH AMERICAN DEMAND FOR NATURAL GAS, TRANSCANADA APPEARS TO BE IN THE MIDST OF THE LARGEST EXPANSION IN ITS HISTORY.

	1989	1988	1987
FINANCIAL			
(millions of dollars except per common share data)			
Income from continuing operations	**210.1**	72.3	171.4
Loss from discontinued operations	**(13.4)**	(80.9)	(11.4)
Net income/(loss) for the year	**196.7**	(8.6)	160.0
Net income/(loss) applicable to common shares	**164.9**	(46.0)	121.4
Funds generated from continuing operations	**289.7**	286.5	246.2
Cash generated from discontinued operations	**44.4**	155.5	69.6
Per common share data			
Net income/(loss) applicable to common shares			
from continuing operations	**$ 1.18**	$ 0.24	$ 1.05
from discontinued operations	**$(0.09)**	$(0.55)	$(0.09)
Net income/(loss) applicable to common shares	**$ 1.09**	$(0.31)	$ 0.96
Funds generated from continuing operations	**$ 1.91**	$ 1.96	$ 1.95
Dividends declared	**$ 0.68**	$ 0.68	$ 1.12
OPERATING STATISTICS			
(billions of cubic feet)			
Gas transmission volumes delivered			
Domestic	**1,031.1**	1,007.7	954.1
Export	**386.9**	337.9	197.9
Gas sales and marketing volumes sold			
Domestic	**771.1**	792.4	839.7
Export	**296.3**	280.1	150.5

INCOME FROM CONTINUING OPERATIONS



FUNDS GENERATED FROM CONTINUING OPERATIONS



ANNUAL DELIVERIES

The 1980s were turbulent years for the North American petroleum industry. Reduced demand for natural gas and an economic recession characterized the early 1980s, while volatile oil and gas prices, the transition to deregulation of natural gas marketing and the advent of open access to natural gas pipelines created profound changes in the industry. TransCanada has been able to adapt to these changes, and is well positioned to meet the challenges of the 1990s.

Gerald J. Maier

1989 HIGHLIGHTS A review of the major events of the past year gives perspective to the high level of activity and degree of change experienced by the company. In May, TransCanada completed a major corporate restructuring, which was designed to divide the company into two separate, publicly traded companies — TransCanada PipeLines Limited, a natural gas transmission and marketing company, and Encor Inc., Canada's twelfth largest oil and gas company. The restructuring and the logic and purpose behind it were fully explained to shareholders at the time of the transaction. It is gratifying that it has been well received by shareholders, and that they have realized the benefits of our objectives, one of which was a more responsive market valuation of the company's businesses. At the end of 1989, the shares in the two companies were trading at a combined price of $20.15, up from the $13.00 trading price of TransCanada's shares in September 1988, when the company first announced its intention to restructure. Following the restructuring, TransCanada re-aligned its management and departmental organization to improve efficiency, effectiveness and co-ordination. In October, TransCanada announced it would move its Toronto office to Calgary during the summer of 1990. The relocation will result in lower operating costs, and thus improve the company's competitiveness for the benefit of all stakeholders. Moreover, with the changing nature of the natural gas industry it is strategically advantageous for the company to be located where it can interface more closely with the sector controlling gas supply. In keeping with its objective to provide an efficient, reliable transportation system to meet the needs of its customers at reasonable cost, TransCanada completed the $631 million 1989 expansion of its mainline essentially on time and within budget.

Under that construction program, the company added 364 kilometres of pipeline and 157,000 kilowatts of compression power to its system. In addition, Great Lakes Gas Transmission System, 50 per cent owned by TransCanada, began a U.S. $187 million expansion program in 1989, which will be completed in the first half of 1990. TransCanada's natural gas deliveries in 1989 reached a record level of 1,418 billion cubic feet, up five per cent from 1988, reflecting the steady increase in demand for gas in our market areas, as well as the company's operational integrity and reliability. Western Gas Marketing, TransCanada's wholly-owned marketing subsidiary and the country's largest natural gas marketer, continued to show leadership by establishing important precedents in securing new or amended agreements with both producers and consumers, giving effect to the principles of deregulation. In August, Western Gas Marketing, in conjunction with other marketing firms and the Alberta Northeast group, obtained producer support to supply new northeastern U.S. markets via the proposed Iroquois Gas Transmission System. This was an important development as it signifies recognition of the need to diversify markets for Canadian natural gas. TransCanada succeeded in eliminating or greatly reducing its exposure to certain liabilities, including receipt of a favorable decision and final disposition of the Saskatchewan Power Corporation lawsuit which was for $59.2 million plus interest; completion of a program to hedge the foreign exchange exposure on the Swiss franc non-utility debt; a substantial reduction in the company's indemnity for the Topgas program from $360 million to 10 per cent of the debt balance outstanding (the outstanding debt balance was $1.152 billion at year end); and pending termination of a U.S. $442 million limited indemnity for Northern Border Pipeline Company debt. Construction began on the Ocean State Power Project, a combined-cycle electrical generating plant in Rhode Island, which will be fueled by Canadian natural gas. TransCanada owns 40 per cent of the project, and the first power sale is scheduled for later this year. The corporate restructuring and utilization of resultant cash deposits, ongoing finance-related operations, a reduction in taxes through utilization of previous tax losses and a higher approved return on the gas transmission operations all contributed to a strong improvement in TransCanada's financial performance in 1989. Net income applicable to common shares from continuing operations was $178.3 million or $1.18 per share, compared with $34.9 million or 24 cents per

share a year ago. After accounting for discontinued oil and gas operations, 1989 earnings were $164.9 million or $1.09 per share, compared with a 1988 net loss of $46 million or 31 cents per share. In December, the company filed its revised 1991-1992 facilities application with the National Energy Board. The application calls for an investment of $2.57 billion and seeks approval to add 1 592 kilometres of pipe and 321,000 horsepower of compression to TransCanada's natural gas pipeline system over the two-year period. The expansion will allow the company to ship an additional 831.5 million cubic feet of natural gas daily.

J.V. Raymond Cyr

OUTLOOK If the past few years are any indication of the future, the petroleum industry and TransCanada itself will continue to experience a level of change that defies the most careful projections. Nevertheless, we believe it is important to look ahead and outline to shareholders our views on the future direction of the company. TransCanada's strategy for the coming years embodies the positive outlook for natural gas in North America. As concern for the environment increases, natural gas is being recognized as the most environmentally benign source of fossil fuel, and it will continue to grow in importance as an energy choice. Other factors such as economics, plentiful supply, North American security of supply and the time frame needed to develop and deliver alternative forms of energy, all support strong growth in natural gas demand well into the 21st century. It is within this framework that TransCanada sees its role continuing to grow as one of the continent's major transporters and marketers of natural gas. While TransCanada is no longer directly involved in the exploration and development of natural gas supply, the company nevertheless continues to view high quality, secure, and economic natural gas supply as fundamental to its viability and growth. In this regard, we have commissioned studies by outside experts to confirm our internal analyses that the western Canadian sedimentary basin has sufficient reserves to meet realistic projections of demand well beyond the year 2000. By that time, supplies from the Northwest Territories, which are already discovered and well recognized, will be available to offset western Canadian production declines. This supply confidence provides assurance that the company's

existing pipeline facilities will be fully utilized, and strong evidence of the need for our proposed additional throughput capacity. TransCanada's main focus over the next three or four years will, therefore, be on the following priorities: Judicious, well-engineered, and carefully managed expansion of TransCanada's mainline and its other affiliated pipelines to meet the needs of producers, shippers, and consumers. New investment on the company's mainline in Canada could be in the order of $3 billion. As well, our share of additional investment in affiliated pipelines such as Foothills Pipe Lines (Sask.), Northern Border Pipeline, Great Lakes Gas Transmission and Iroquois Gas Transmission, based on our percentage equity ownership, could be in the range of $600 million. Diversify and expand the marketing of natural gas both to alleviate the current supply surplus, and to ensure long-term security of supplies for core market customers. This is an important target, but difficult to achieve because of deregulation, potential expiry of certain supply contracts, and lack of appreciation by some market sectors as to the need for supply security. Continue the program to improve operating performance and efficiency at every level, without sacrificing pipeline safety or reliability. Excellent service at reasonable cost is essential in order to compete in the new environment of deregulation and open-access pipelines. Expand into businesses such as gas storage and co-generation or combined-cycle power generation that are an extension of, or complementary to our existing core businesses, but only where we have related technical and managerial expertise. Such ventures could be of considerable benefit to our shippers and other customers by providing new markets for gas and level-loading our transmission system. TransCanada's overriding objective inherent in all these activities is to improve both operating and financial performance through improved operating efficiency, expansion and extension of pipeline systems, investments in appropriate new ventures, and improving or divesting current investments that do not meet our standards. For the medium to longer term, the company will continue with its plans to participate in pipeline projects bringing frontier gas supplies to market, and to further its interest in other pipeline systems to enhance marketing abilities and obtain transportation synergies. In summary, the overall outlook for TransCanada is very positive. We have ambitious and challenging opportunities already identified and on the drawing boards to keep us fully occupied for a number of years. Beyond that time frame we

expect the need for frontier gas will provide the next cycle of opportunity that will extend through the 1990s.

VALUED SUPPORT OF EMPLOYEES AND BOARD We would like to thank our employees for their contributions during a most challenging and successful year. Their skills and perseverance formed the backbone to the company's success. While we regret the inconvenience and disruption the relocation to Calgary will cause Toronto employees and their families, TransCanada is dedicated to making the transition as smooth as possible. Employees who are going to Calgary will receive relocation assistance, while those who choose to remain in Toronto will be provided with fair severance packages and job search assistance. We would also like to express our appreciation to our Directors for their valued counsel and support during the past year. We regret that James M. Cameron will be stepping down from the Board. He retired as an Officer of TransCanada in May, 1989, and in accordance with company policy, will not be standing for re-election. Mr. Cameron's leadership and dedication during his long association with TransCanada have been invaluable and he will be sorely missed. John H. C. Clarry also will not be standing for re-election to the Board, having reached the mandatory age for retirement. Mr. Clarry has contributed more than 13 years of his expertise to TransCanada and his guidance will be missed. The Annual Meeting will be held at the Westin Hotel in Winnipeg, Manitoba, on Monday, April 30, 1990, at 10:30 a.m. We look forward to seeing you there.

G. J. Maier
President and
Chief Executive Officer

J. V. R. Cyr
Chairman

PIPELINE OPERATIONS

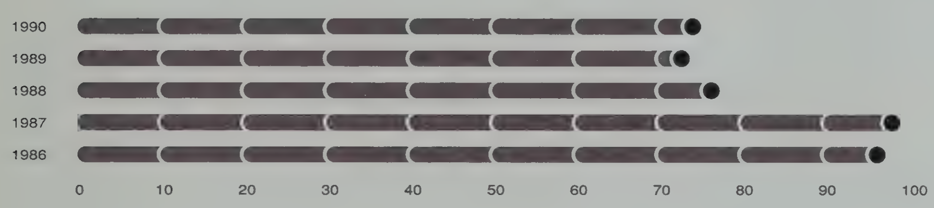
In 1989, TransCanada delivered record volumes of gas and added $631 million of new pipeline facilities during one of the largest expansion years of the system since the original pipeline was built in the late 1950s. This growth was in response to sharply rising North American demand for natural gas, a trend which is expected to continue well into the 1990s. TransCanada's transmission system delivered a record 1.418 trillion cubic feet of gas last year, a five per cent increase over 1988's level of 1.346 trillion cubic feet. Domestic volumes reached 1.031 trillion cubic feet—up from 1988's 1.008 trillion cubic feet, the previous high. Export volumes were also at record levels—387 billion cubic feet, up from the previous record of 338 billion cubic feet in 1988, when exports jumped by 71 per cent. This increase was due to competitive market pricing and improved access to U.S. markets for Canadian gas, factors which will continue to have a positive impact on exports from the TransCanada pipeline system. To keep pace with the growing demand, TransCanada spent $631 million to build 364 kilometres of new pipeline and other facilities in 1989. As a result of the expansion, TransCanada is now able to transport an additional 450 million cubic feet of gas per day—198 million cubic feet for twelve Canadian customers and 252 million cubic feet to five U.S. customers. Substantial facilities construction will continue in 1990 and beyond to satisfy growing domestic and U.S. demand. This year, TransCanada has been conditionally authorized by the National Energy Board (NEB) to build 412 kilometres of pipeline and add five compressor units to its system. The expansion calls for an investment of about $600 million and will allow the company to ship 511 million cubic feet per day of new firm services in the 1990-91 contract year. Several factors will affect the actual size and timing of the expansion. They are NEB export licence approvals for certain export volumes, U.S.

CAPITAL EXPENDITURES

(millions of dollars)

approval of certain imports, connecting U.S. pipeline facilities, and renewal of certain sales contracts. The company has an application before the NEB to construct $2.57 billion in facilities during 1991 and 1992 to serve customers in Canada and the United States. If approved, this program would add 1 592 kilometres of pipeline, substantially more compression power and two new compressor stations. The new facilities would permit the transport of an additional 831.5 million cubic feet of gas daily—576 million cubic feet daily for the proposed Iroquois Gas Transmission System alone. An NEB hearing to review the application is scheduled to begin on March 26, 1990. While expansion attracted much of the spotlight in 1989, TransCanada nevertheless maintained its drive to maximize efficiency and reduce costs of day-to-day operating expenses and capital spending. During early 1989, the NEB heard the second phase of the 1988 and 1989 tolls application, dealing with revenue requirement, rate base, rate of return and toll design and tariff issues. In August, the NEB announced its decision, which approved a return on equity of 13.25 per cent for 1988 and 13.75 per cent for 1989 on a deemed common equity ratio of 30 per cent of capitalization in both years. A further application, dealing only with revenue requirement, rate base and rate of return for 1990, was heard late in 1989. On February 5, the NEB approved a rate of return on equity of 13.25 per cent for 1990 on a deemed common equity ratio of 30 per cent of capitalization. As it enters the 1990s, TransCanada will continue with the most significant system expansion in its history, and will be relying heavily on its strong engineering and construction expertise.

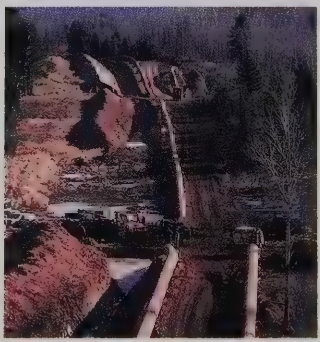
AVERAGE AUTHORIZED TOLL TO EASTERN CANADA



(cents per gigajoule)

ASSOCIATED PIPELINES

GREAT LAKES GAS TRANSMISSION COMPANY Great Lakes Gas Transmission Company (Great Lakes) is in a period of expansion due mainly to increased demand for natural gas in the U.S. midwest and northeast. Great Lakes, which is 50 per cent owned by TransCanada, is nearing completion of a U.S. $187 million facilities expansion which will allow

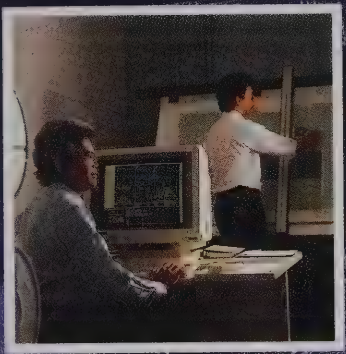


Left **In 1989 Great Lakes Gas Transmission Company began a U.S. $187 million expansion program to meet rising demand for natural gas. The Great Lakes system connects with the TransCanada pipeline at the U.S. border near Emerson, Manitoba, runs through Minnesota, Wisconsin and Michigan and reconnects with the TransCanada system at Sarnia, Ontario.**

Right **In addition to monitoring and controlling the operations of its 11 000-kilometre-long Canadian mainline, TransCanada monitors the operations of the Great Lakes Gas Transmission system in the U.S. and the Trans Québec & Maritimes Pipeline in Québec, both 50 per cent owned by TransCanada.**

Great Lakes to ship an additional 142.5 million cubic feet of gas daily. Great Lakes is now awaiting approval from the U.S. Federal Energy Regulatory Commission (FERC) for construction in 1990-91 of a U.S. $439 million expansion that will allow the company to transport an additional 417.5 million cubic feet daily to TransCanada. Also in 1989, Great Lakes requested the FERC to authorize a certificate of "open access", making transportation on its system available to all shippers requesting it, as capacity allows. All parties are progressing towards a resolution of issues raised by the request. Great Lakes filed two rate applications in 1989. They have been consolidated for disposition. In December, Great Lakes offered to reduce its applied-for rates, to be effective January 1, 1990. Settlement discussions are continuing with Great Lakes' customers and the FERC.

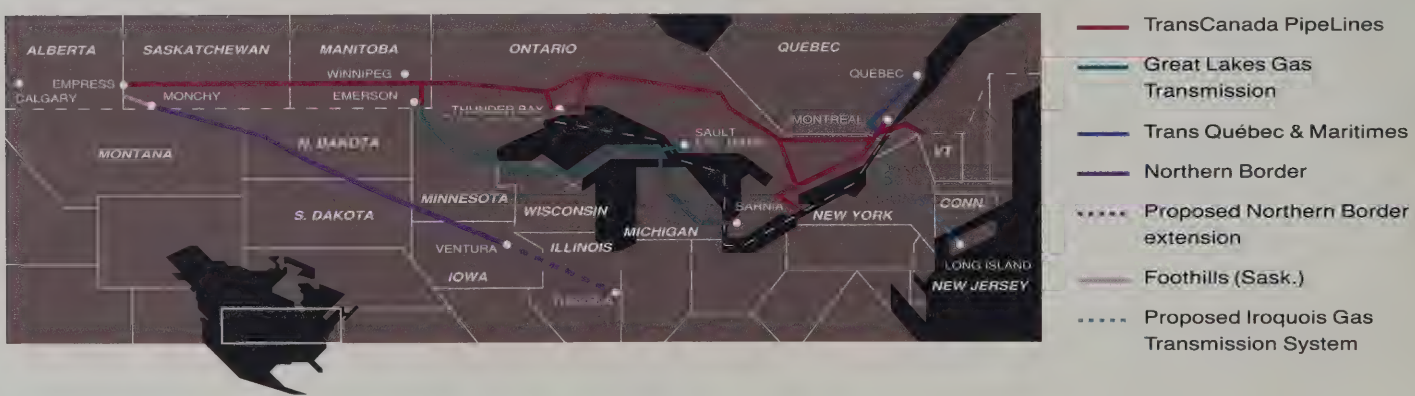
NORTHERN BORDER PIPELINE COMPANY Northern Border Pipeline Company (Northern Border), which is 30 per cent owned by TransCanada, delivered a record 388.7 billion cubic feet of gas in 1989, a six per cent increase over the previous record in 1988. Northern Border is planning the addition of a U.S. $16.2 million compressor station, which will add capacity of 150 million cubic feet per day when completed in early 1991. Plans for a U.S. $530 million expansion and extension



CONSTRUCTION PLANNING • LONG BEFORE THE FIRST PIPELINE CONSTRUCTION CREWS ARRIVE ON SITE, TRANSCANADA'S EMPLOYEES ARE HARD AT WORK ON THE THOUSANDS OF DETAILS—FROM LAND SURVEYING AND ENVIRONMENTAL ASSESSMENT TO ROUTE MAPPING, PROJECT DESIGN AND CONSTRUCTION SCHEDULING AND TENDERING—THAT GO INTO A MASSIVE PIPELINE EXPANSION PROGRAM. IN THE INITIAL STAGES OF PLANNING, THE COMPANY'S SKILLED DRAFTING PERSONNEL—MOST USING SOPHISTICATED COMPUTER-ASSISTED-DRAFTING EQUIPMENT—DEVELOP HUNDREDS OF PIPELINE AND COMPRESSOR UNIT CONSTRUCTION DRAWINGS TO HELP MATERIALS SUPPLIERS, SURVEYORS, DESIGN ENGINEERS AND CONSTRUCTION CREWS DO THEIR PARTS TO COMPLETE THE PROGRAM.

of Northern Border are on file with the FERC. In 1989, Northern Border moved closer to resolving two outstanding issues. First, a settlement has been reached between United Gas Pipe Line Company and Pan-Alberta Gas/NatGas U.S. Inc. on matters relating to the transportation, purchase and sale of Canadian gas. This settlement was necessitated by the financial condition of United, a major shipper on Northern Border. A FERC order approving the settlement arrangement and the transfer of United's Northern Border transportation rights and obligations to NatGas was issued in December. Second, Northern Border is awaiting the FERC's response to its December rate case settlement filing. Northern Border and its direct customers have agreed to a rate structure which includes a revised return on equity, an extended depreciation life and the retention of a cost-of-service tariff. Implementation of the settlement will necessitate refinancing of Northern Border's debt, a development that will eliminate TransCanada's limited indemnity for Northern Border's current debt financing.

FOOTHILLS PIPE LINES (SASK.) LTD. Foothills Pipe Lines (Sask.) Ltd. (Foothills), in which TransCanada has a 44 per cent interest, transported approximately 320 billion cubic feet of gas in 1989. This was an increase of three per cent over 1988's record volumes of 311 billion cubic feet. In 1989, Foothills began construction of a $38 million unit to its compressor station near Val Marie, Saskatchewan. The unit, which will be in service by April 1990, will provide additional



security of delivery by the system during peak load times.

TRANS QUÉBEC & MARITIMES PIPELINE INC. Trans Québec & Maritimes Pipeline Inc. (TQM), 50 per cent owned by TransCanada, operates a natural gas transmission system

which connects with the TransCanada pipeline at Saint Lazare and runs to Boisbriand, near Québec City. In 1989, it transported 97 billion cubic feet of gas to Québec markets, a seven per cent increase over 1988. TQM has been allowed a rate of return of 13.75 per cent on a deemed capitalization of 25 per cent for 1989 and 1990.

IROQUOIS GAS TRANSMISSION SYSTEM During 1989, the Iroquois Gas Transmission System (Iroquois), a proposed U.S. $583 million natural gas pipeline to the U.S. northeast, continued to make significant progress toward obtaining regulatory approval in the United States. It also added a new partner, won support from western Canadian gas producers and increased the amount of natural gas it will transport. TransCanada has a 29 per cent interest in the Iroquois system, which is proposed to extend 575 kilometres from Iroquois, Ontario, to Long Island, New York. The pipeline is planned to become operational in the fall, 1991. In October, Iroquois received approval from the New York State Public Service Commission for the construction of the 491 kilometres of pipeline—about 85 per cent of the pipeline's total length—through New York State. While final approval of the project is the responsibility of the FERC, Iroquois continues to work closely with state and local authorities in Connecticut on local routing and environmental matters. The FERC is expected to complete its review and issue all authorizations for the project in mid-1990. In November, the FERC released a favorable draft Environmental Impact Statement which stated that the Iroquois pipeline could be built in an "environmentally acceptable" manner. A final Environmental Impact Statement will be issued in the spring of 1990. The FERC also held a technical conference on rates and received updated market data for the project. The New York Power Authority purchased a two per cent share of Iroquois in November, increasing the number of participants to thirteen. TransCanada's 29 per cent equity in the project remains unchanged. In August, western Canadian natural gas

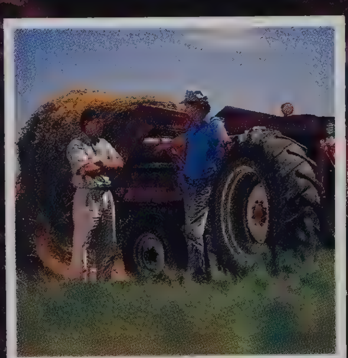
THE IROQUOIS GAS TRANSMISSION SYSTEM, A PROPOSED NATURAL GAS PIPELINE FROM THE CANADA/U.S. BORDER TO MARKETS IN THE NORTHEASTERN UNITED STATES, MADE SIGNIFICANT PROGRESS TOWARDS OBTAINING U.S. REGULATORY APPROVALS IN 1989.

producers associated with Western Gas Marketing Limited and ProGas Limited approved sales contracts with northeastern U.S. customers for gas supplies to be shipped on the Iroquois system. This development signalled the producers' recognition of the benefits of serving the northeastern U.S. market and moved the Iroquois project another step closer to final approval. In September, Boston Gas and Granite State Gas Transmission – two Iroquois customers – increased the amount of natural gas they would transport on Iroquois, and the New England Power Company was added as a new shipper. As a result of these developments, the current firm volume commitment for gas transportation on Iroquois has increased to 576 million cubic feet per day. This larger volume can be accommodated by Iroquois without any changes to applied-for facilities.

POLAR GAS PROJECT TransCanada is project manager for Polar Gas, a consortium formed to construct a pipeline to transport Arctic natural gas to southern markets. The other participants in the project are Tenneco Inc. and Panarctic Oils Limited. The consortium filed applications with the NEB and the Department of Indian Affairs and Northern Development in 1984 to construct a 36-inch-diameter pipeline, 2 120 kilometres in length, from the Mackenzie Delta in the Northwest Territories to southern Alberta where it would connect with existing pipeline systems for further transportation to Canadian and U.S. markets. Development of Arctic oil and natural gas reserves moved slowly in the last few years until recently when three Mackenzie Delta area producers – Esso Resources Canada, Gulf Resources and Shell Canada – filed gas export licence applications with the NEB in late 1988 and early 1989. After public hearings last spring, the NEB in October approved the producers' request to export up to 9.2 trillion cubic feet of natural gas from the Mackenzie Delta and Beaufort Sea. The licences issued are subject to final approval by the Governor-in-Council and are conditional on exports beginning between 1996 and 2000. In 1989, Polar Gas increased its activities with the intention to have a significant interest in the pipeline system that will eventually transport the gas. It is the Polar Gas sponsors' objective to work with other pipeline proponents and interested groups towards filing a common application

TRANSCANADA AND ITS PARTNERS IN THE POLAR GAS PROJECT ARE WORKING WITH OTHER INTERESTED GROUPS IN THE INDUSTRY TOWARDS FILING A COMMON APPLICATION TO BUILD A PIPELINE TO TRANSPORT ARCTIC NATURAL GAS TO SOUTHERN MARKETS.

RIGHT-OF-WAY ACQUISITION • TO PREPARE FOR 1989'S HUGE CONSTRUCTION PROGRAM, TRANSCANADA RIGHT-OF-WAY AGENTS MADE MORE THAN 700 NEW CONTACTS WITH LANDOWNERS, TENANTS AND GOVERNMENT AGENCIES. THEIR JOB WAS TO OBTAIN WORK AND CROSSING PERMITS, LEASES AND EASEMENTS TO ALLOW THE INSTALLATION OF NEW PIPELINE ALONG THE TRANSCANADA SYSTEM. AS PART OF A COMPREHENSIVE RIGHT-OF-WAY COMMUNICATIONS PROGRAM, THE COMPANY ALSO HELD SEVERAL



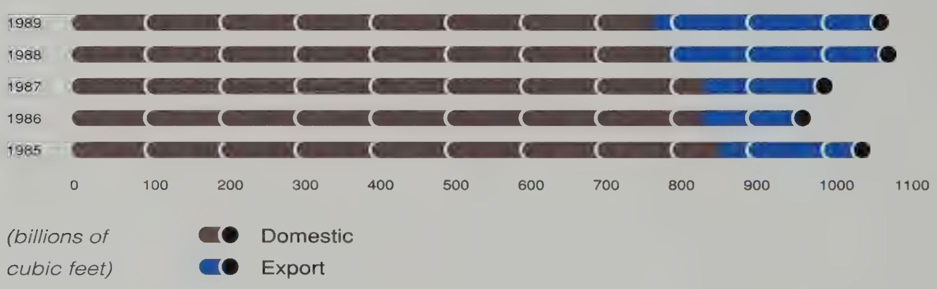
OPEN HOUSE MEETINGS THROUGHOUT MANITOBA, ONTARIO AND QUÉBEC TO EXPLAIN TO LOCAL RESIDENTS AND INTEREST GROUPS ITS CONSTRUCTION PLANS AND THEIR IMPACT ON LOCAL COMMUNITIES.

for a construction certificate so that a timely start can be made on the project as warranted by market and economic conditions.

GAS SALES AND MARKETING

WESTERN GAS MARKETING LIMITED A wholly-owned subsidiary of TransCanada, Western Gas Marketing Limited (Western Gas) is responsible for the supply and sale of western Canadian natural gas and the expansion of markets in Canada and the United States. Western Gas administers TransCanada's gas purchase contracts with about 750 Alberta producers as well as all gas sales contracts with customers in both Canada and the United States.

DOMESTIC AND EXPORT SALES



In 1989, Western Gas' objectives were to: maintain domestic sales, increase exports and secure future growth opportunities; obtain approval from producers for the sale of gas to northeastern United States customers to be served by the proposed Iroquois Gas Transmission System; gain approval from regulatory authorities for new sales contracts with eastern Canadian distributors; and obtain approval from producers for a long-term, netback pricing amendment which was effective January 1, 1989. In 1989, Western Gas achieved total gas sales of 1 067.4 billion cubic feet, 5.1 billion cubic feet less than 1988's record sales volumes. Sales to Canadian customers were 771.1 billion cubic feet in 1989 compared to 792.4 billion cubic feet in 1988. The decline in domestic sales was due to increased competition in the core and industrial markets. During the year, efforts to broaden Western Gas' customer base and increase sales in the U.S. resulted in record sales of 296.3 billion cubic feet, up from 280.1 billion cubic feet in 1988. Since 1987, Western Gas has increased sales into the United States by 145.8 billion cubic feet. One of the most significant developments in 1989 was the August 4, 1989, endorsement by western Canadian producers to sell their gas to northeastern U.S. customers. These customers will be

served by the proposed Iroquois Gas Transmission System. The producers' approval was a milestone, marking their acknowledgment of the benefits of serving this export market and thereby overcoming a major hurdle the Iroquois project faced in Canada. In 1989, Western Gas received approval from regulatory authorities in Manitoba, Ontario and Québec for new sales agreements with natural gas distributors in their respective provinces. The contracts cover terms of

Left **Western Gas Marketing administers gas purchase contracts with about 750 western Canadian producers, representing approximately one third of all proven Alberta natural gas reserves. The gas is processed in gas plants like the one shown here and shipped by pipeline to the TransCanada system near the Alberta/Saskatchewan border.**

Right **Western Gas Marketing sells gas to a wide range of customers—from large industrial plants to the local distribution companies in eastern Canada and the midwestern and northeastern United States that serve residential, institutional and small commercial consumers.**

either 12 or 15 years, with annual price review provisions, meaning that eastern Canadian distributors can assure their essential service customers of long-term supply at market-responsive prices. A complementary and significant development was a new long-term, netback pricing arrangement which Western Gas proposed to all its contracted producers. All but one small producer signed the netback amendment, effective January 1, 1989. Accomplishments of 1989 have placed Western Gas in a strong position to secure significant growth opportunities in the highly competitive short-term and long-term North American natural gas markets.

OTHER BUSINESSES

OCEAN STATE POWER Ocean State Power, in which TransCanada has a 40 per cent interest, commenced construction in April 1989 on the first phase of the combined-cycle electrical generating plant in Rhode Island. It is scheduled to start producing 250 megawatts of electricity later this year. In November, following receipt of regulatory approvals, construction started on the second phase of the project, scheduled to deliver another 250 megawatts of power by the end of 1991. When completed, the U.S. $400 million plant will double Rhode Island's electrical output and consume 100 million cubic feet of western Canadian gas daily. In addition to its activities in

the Ocean State Project, TransCanada has pursued combined-cycle and co-generation power projects in Canada. The company's negotiations with Ontario Hydro for private electrical generation have resulted in an agreement on the sale of 36 megawatts of power from an enhanced combined-cycle plant to be built at Nipigon, adjacent to a TransCanada compressor station. The plant could produce its first power in the summer, 1992. Agreements on other plant

Left **Pipetronix offers leading edge inspection services to pipeline companies worldwide. In 1989, Pipetronix launched UltraScan, an ultrasonic pipeline inspection tool and quickly won contracts with several major international petroleum companies.**

Right **At its plant in Medicine Hat, Alberta, Cancarb manufactures thermal carbon black, a natural gas derivative. Cancarb is the world's largest producer of thermal carbon black which is used in a wide variety of products.**

installations are also being negotiated.

PIPETRONIX Pipetronix, a wholly-owned subsidiary of TransCanada, offers a range of on-line inspection and other consulting services to pipeline owners worldwide. The market for these services is expanding and, in 1989, Pipetronix acquired 23 new customers and increased revenues 40 per cent over 1988. The company's business strategy emphasizes the development of advanced pipeline inspection technology. In 1989, it introduced its ultrasonic inspection tool, UltraScan, to Europe and North America. It was awarded 10 contracts, several with major international petroleum companies. Pipetronix continues to develop an advanced, high-resolution magnetic flux tool called High Resolution MagneScan. A prototype has successfully run on the TransCanada system and final design and testing is underway with market availability expected in the last half of 1990. UltraScan and High Resolution MagneScan put Pipetronix in a position of technological leadership in the world and allow the company to offer the most advanced inspection capabilities and associated data management to pipeline owners. For 1990, Pipetronix forecasts increasing market penetration, continued development of UltraScan as the premium liquids pipeline inspection tool and the completion and commercial introduction of High Resolution MagneScan.

CONSTRUCTION • FROM BURSTALL, SASKATCHEWAN, TO MONTREAL, TRANSCANADA'S MAINLINE WAS ALIVE WITH ACTIVITY IN 1989. PIPELINE CONSTRUCTION CREWS

ENDURED ALL KINDS OF DIFFICULT WORKING CONDITIONS, INCLUDING WINTER'S CHILLING SUB-ZERO TEMPERATURES AND THE HAZY HUMIDITY OF SUMMER, TO COMPLETE THE MASSIVE EXPANSION PROGRAM IN TIME FOR THE 1989-90 CONTRACT YEAR. A TOTAL OF 364 KILOMETRES OF PIPELINE AND EIGHT COMPRESSOR UNITS WITH THE COMBINED POWER OF 157,000 KILOWATTS WERE BEING INSTALLED TO ADD 450 MILLION CUBIC FEET A DAY OF NEW CAPACITY TO THE TRANSCANADA SYSTEM, AT A COST OF ABOUT $631 MILLION.

CANCARB Cancarb Limited, wholly-owned by TransCanada, is the world's largest manufacturer of thermal carbon black and exports more than 95 per cent of its production. Thermal carbon black is a natural gas derivative used in the production of a variety of products. The slowdown in industrial production in the United States during the latter months of 1989 caused a drop in North American sales, which was partly offset by modest growth overseas. Cancarb continues to develop advanced material technology for the production of beta silicon carbide powder. Beta silicon carbide is a ceramic material used in applications where heat, wear and corrosion are factors. Pilot plant results have been very encouraging and development is scheduled to be completed in 1990. The Province of Ontario has supported the research and development of this new process which could mark a breakthrough in advanced ceramic technology.

OTHER INVESTMENTS In addition, TransCanada holds a 16 per cent equity interest in Montreal Pipeline, which connects Montreal East refineries to South Portland, Maine; an undivided 50 per cent interest in the Empress II gas extraction plant, located near Empress, Alberta; and a 10 per cent interest in Les Mines Selbaie, a combined underground and open pit mining operation near Joutel, Québec.

FINANCE

TRANSCANADA COMPLETED A REFINANCING OF THE TOPGAS PROGRAM, A TYPE OF PRODUCTION LOAN TO THE COMPANY'S CONTRACTED GAS PRODUCERS. THE REFINANCING RESULTED IN REDUCED CARRYING COSTS FOR THE PRODUCERS AND A LOWER INDEMNITY TO TRANSCANADA.

In 1989, the company completed a Plan of Arrangement which resulted in the distribution in early May of the common shares of Encor Inc. to the common shareholders of TransCanada. As a result of the Plan of Arrangement, TransCanada received $493.5 million from Encor as a return of capital and advances. The company's objective has been to maximize the return to the shareholders on this capital through a combination of investment in high grade financial assets and the use of interest rate management tools. To finance the massive 1989 construction program, the company issued four series of debentures totalling $605 million. Maturities range

from 20 to 30 years, at an average interest rate of 10.63 per cent. During 1989, TransCanada continued its program of hedging its Swiss franc exposure. By year end, 424.7 million Swiss francs, or 62 per cent of the position was hedged at an average Canadian interest rate of 10.71 per cent. In January 1990 the remaining balance (259.8 million Swiss francs) was hedged, thus eliminating the company's exposure to further movements of the Swiss franc. On June 1, 1989, the company redeemed its Series G convertible preferred shares. On November 1, 1989, TransCanada redeemed the Series E preferred shares and replaced them with the lower cost Series K perpetual preferred shares. On January 10, 1990, the company completed the refinancing of the Topgas program, a bank-financed program for the company's take-or-pay obligations up to 1983. Under the refinancing, about $630 million in debentures and $520 million in commercial paper have been issued by an entity known as Topgas. This refinancing has resulted in lower carrying costs for the company's producers and a lower indemnity to TransCanada. The company will undertake another substantial capital raising program in 1990 to fund its utility expenditures. The size of the program including refinancings could be as high as $650 million. The average cost of short-term borrowing during 1989 was 12.06 per cent on average daily Canadian dollar notes outstanding of $390.8 million. TransCanada earned 12.20 per cent on average daily Canadian short-term investments of $30.2 million and 9.29 per cent on average daily United States short-term investments of U.S. $516.6 million. More than 3,600 common and preferred shareholders participated in TransCanada's Dividend Reinvestment and Share Purchase Plan in 1989. The plan raised more than $31.3 million in common equity at an average price of $14.94 per share.

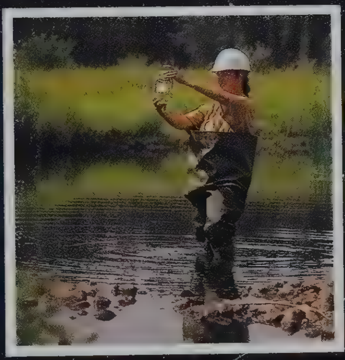
TransCanada takes its corporate responsibility seriously, both in communities across Canada and in the workplace itself. Its financial contribution — more than $1.2 million in 1989 — puts the company among the top 25 corporate donors in Canada. From the Calgary Philharmonic to the Kapuskasing Boy Scouts, hundreds of deserving organizations and activities benefitted from the company's support in 1989. For instance, TransCanada contributed $25,000 to the University of Guelph for an environmental biology/horticultural science building. Research there will aid the development of new, environmentally compatible food and floral production systems. On the job, safety of both employees and the public is a key priority at TransCanada. Comprehensive training courses and incentive programs encourage employees to work safely, while rigorous operating practices, regular helicopter patrol of the right-of-way and the use of technologically advanced pipeline materials ensure maximum security of the pipeline system. TransCanada has an excellent record for environmental protection. Special techniques are employed during construction to protect all environmentally sensitive areas. When construction is complete, TransCanada takes the necessary steps to restore the land to as close to its original condition as possible, and then monitors the progress of the restoration for several years. The company continues to work towards improving its operations and developing additional policies and practices to help preserve the environment. TransCanada's social commitment is based on a

Left **To ensure the maximum security of its pipeline system, TransCanada patrols the entire length of its right-of-way – more than 4 500 kilometres from Burstall, Saskatchewan, to the Québec/Vermont border – to watch for any activities that may interfere with the system's safe operation.**

Right **TransCanada follows strict company and regulatory policies and practices to ensure the pipeline has minimal impact on the environment. Buried deeply and safely underground, most of TransCanada's pipeline runs through rural areas where its daily operation has little effect on its surroundings.**

simple belief: to build for tomorrow as well as today. Along with its environmental protection efforts, the company's donations to civic, cultural, educational, health, sports and other causes are aimed at contributing to a rich Canadian heritage for the future.

ENVIRONMENTAL MONITORING AND PROTECTION • THE FOCUS ON THE ENVIRONMENT BEGINS EARLY IN THE EXPANSION PLANNING PHASE AS TRANSCANADA'S EMPLOYEES PREPARE IMPACT STUDIES, SELECT ROUTES AND SCHEDULE CONSTRUCTION TO MINIMIZE THE PIPELINE'S IMPACT ON THE ENVIRONMENT. DURING CONSTRUCTION, SPECIAL TECHNIQUES ARE USED TO PRESERVE THE LANDSCAPE AND ON-SITE INSPECTORS ENSURE COMPLIANCE WITH COMPANY POLICY AND



GOVERNMENT LEGISLATION. AS WELL, POST-CONSTRUCTION MONITORING AND STAFF TRAINING IN ENVIRONMENTAL PRIORITIES ARE ONGOING PROGRAMS. THESE PRACTICES HELP ENSURE TRANSCANADA'S PIPELINE CAUSES AS LITTLE DISTURBANCE AS POSSIBLE TO THE ENVIRONMENT.

The accompanying consolidated financial statements included in the Annual Report are the responsibility of Management and have been approved by the Board of Directors of the Company. The consolidated financial statements of the Company have been prepared by Management in accordance with accounting principles generally accepted in Canada applied, after giving retroactive effect to the change in accounting for extraordinary items as described in Note 1, on a consistent basis. Financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

The Board of Directors has appointed an Audit Committee consisting solely of directors who are not officers of the Company to review with Management and the independent auditors the annual consolidated financial statements of the Company prior to submission to the Board of Directors for final approval. The Audit Committee also meets periodically during the year with Management and the internal and external auditors either individually or as a group. Internal and external auditors have free access to the Audit Committee without obtaining prior Management approval.

The independent auditors, Peat Marwick Thorne, have been appointed by the shareholders to express an opinion as to whether the consolidated financial statements present fairly the Company's financial position, operating results and changes in financial position in conformity with generally accepted accounting principles.

The report of the independent auditors on page 35 outlines the scope of their examination and their opinion on the consolidated financial statements.

The following discussion has been prepared by Management and is a review of the financial results of the Company based on Canadian generally accepted accounting principles. Its focus is primarily a comparison of the financial performance of 1989 to that of 1988 and it should be read in conjunction with the consolidated financial statements and accompanying notes. In addition, significant changes between 1988 and 1987 are highlighted. Note 20 to the financial statements describes significant differences between Canadian and United States generally accepted accounting principles.

Under a corporate restructuring completed on May 2, 1989, ownership of the Company's oil and gas operations was transferred to TransCanada's common shareholders. As a result, TransCanada reports financial results from its gas transmission, associated pipelines, marketing and other businesses as continuing operations and results of the former oil and gas operations as discontinued operations.

RESULTS FROM CONTINUING OPERATIONS

Net income from continuing operations for 1989 was $210.1 million resulting in income per share of $1.18, compared to $72.3 million or 24 cents per share for 1988 and 1987 results of $171.4 million or $1.05 per share.

The improved results in 1989 include income tax benefits of $21.1 million or 14 cents per share resulting from the use of prior years' income tax losses. The Company has retroactively adopted the new accounting recommendations of the Canadian Institute of Chartered Accountants for Extraordinary Items, as discussed more fully in Note 1 to the financial statements. Under these recommendations the Company is required to reflect the use of such tax losses in continuing operations as a reduction of income taxes.

In addition to the income tax benefits and as explained in more detail below, the improvement in net income from continuing operations results mainly from the investment of the cash generated from the Company's corporate restructuring. Increased gas transmission earnings and a strengthening of the Canadian dollar against the Swiss franc also contributed to the improvement in earnings. These increases were partially offset by a lower return on the Company's investment in Northern Border Pipeline Company (''Northern Border'') due to anticipated toll modifications and the negative impact a stronger Canadian dollar had on TransCanada's earnings from United States pipelines.

In 1988, investment and asset provisions of $29 million or 20 cents per share and a provision for previously recorded U.S. income tax benefits of $43.2 million or 29 cents per share reduced earnings to 24 cents per share.

Funds generated from continuing operations increased to $289.7 million in 1989 from $286.5 million in 1988 and $246.2 million in 1987. Despite higher earnings, funds generated from continuing operations in 1989 were negatively impacted due to lower dividends from associated United States pipelines. To help finance its 1989 construction program, Great Lakes Gas Transmission Company did not make dividend payments in 1989. Dividends and distributions received from investments in associated pipelines amounted to $41.9 million, $77.2 million and $94.2 million for the years 1989, 1988 and 1987 respectively. Funds generated from continuing operations in 1988 were $40.3 million higher than in 1987. The lower 1988 income from continuing operations, adjusted for provisions, was more than offset by the net impact of changes in deferred income taxes and amortization of deferred amounts.

TransCanada reports its continuing operations under two principal business segments, the Gas Transmission segment and the Gas Sales, Marketing and Other segment.

GAS TRANSMISSION SEGMENT

The Company's Gas Transmission segment, together with investments in associated pipelines, continues to provide the major contribution to consolidated net income. These operations are subject to the jurisdiction of various regulatory bodies with respect to matters such as tolls, construction, operations and accounting.

The Gas Transmission segment's tolls are set by the National Energy Board ("NEB") to permit the Company the opportunity to recover, through the Company's revenue, projected costs of transporting natural gas and to provide a fair and reasonable return on its investment. Tolls are based on a number of factors including estimates of the level of this segment's rate base, operating and financing costs. Rate base is essentially the net book value of the Gas Transmission segment's gas plant in service plus an allowance for working capital. While changes in authorized rate base impact the contribution to net income by this segment, variations in volumes of gas delivered do not, by themselves, have an impact on net income.

Reflecting the first major construction program in years, plant, property and equipment in this segment increased $569.9 million in 1989, whereas it had increased only marginally in 1988 and had decreased in 1987 as depreciation exceeded capital expenditures. The 1989 year end balance of gas plant under construction included in plant, property and equipment, which will form part of future rate base, rose to $301.6 million from $52.4 million in 1988. The segment's approved rate base was $2,519.7 million in 1989 compared to $2,359.9 million in 1988 and $2,478.2 million in 1987. The NEB set the segment's rate of return for 1989 at 13.75% and in 1988 and 1987 at 13.25%, all based on a deemed common equity of 30%. For 1990 the NEB has set the rate of return at 13.25% on a deemed common equity of 30%. The approved rate base for 1990 is $3,032.8 million. In addition to the return earned by the Company on its approved rate base, the NEB allows the Company to record a return on funds used during the construction of utility assets.

Gas Transmission revenues in 1989 were marginally lower than 1988 even though operating costs, before depreciation, financial charges and income taxes, were 8% higher than in 1988. Higher 1989 operating costs were more than offset by reduced income taxes payable by this segment which reduced the tolls payable by shippers. Comparing 1988 to 1987, the average toll set by the NEB during 1988 was approximately 23% lower because of a number of factors, including increased throughput, lower costs for transmission by other companies and the refund of excess amounts collected in tolls during 1987. In addition, the average 1988 toll was less than 1987 by an additional 10% as compressor fuel required to operate the transmission system was provided by the shippers. In 1987 and prior years this fuel was purchased by the Company and recovered in tolls.

Increased demand in both Canada and the United States caused throughput on the transmission system in 1989 to increase by approximately 5% over 1988 volumes. Domestic deliveries increased 2% in 1989, compared to 1988 levels, to approximately 1,031 billion cubic feet while export deliveries increased by almost 15% to 386.9 billion cubic feet. While increased throughput does not affect net income currently, the demand for additional capacity on the gas transmission system has led to the Company's expansion plans which will ultimately increase rate base and thereby should improve net income in the future. Total deliveries during 1988 increased by approximately 17% over 1987 volumes reflecting 6% higher domestic deliveries combined with a 71% increase in export deliveries.

The impact of inflation on the Company is minimized by the effect of the regulatory process on the Gas Transmission segment. The Company believes that to present financial statements on any other basis than historical cost would be misleading in that such statements would not depict the economics of its regulated operations.

GAS SALES, MARKETING AND OTHER SEGMENT

The Gas Sales, Marketing and Other segment includes the financial results of Western Gas Marketing Limited ("Western Gas"), the subsidiary which administers all of the contracts under which the Company purchases and sells gas. Also included in this segment are the comparatively minor revenues and expenses from the Company's interests in the manufacturing and sale of thermal carbon black, the extraction of natural gas liquids and ethane from natural gas, pipeline inspection services, as well as general corporate overhead.

This segment's revenues represent primarily the price at which natural gas is sold to the Company's customers. This segment's operating costs represent primarily the cost of purchasing the gas sold to customers. In determining the amount paid to producers for the purchase of gas, the Company deducts certain charges, as approved by the producers, including a marketing fee.

While Western Gas lost some of its domestic market share by volume during 1989 and 1988 as a result of intense competition, during the same period it has experienced an increase in exports of natural gas volumes to the United States. Domestic sales volumes during 1989 were approximately 771 billion cubic feet, a decline of 3% from 1988 levels. Domestic revenues in 1989 decreased by 11% reflecting the lower volumes combined with a 10% reduction in the average domestic sales price from 1988 levels reflecting market sensitive pricing arrangements. During 1988 domestic sales volumes declined by over 5% from 1987 levels while 1988 revenues increased almost 11% over 1987 due in part to the reductions in tolls charged by the Gas Transmission segment. Export sales volumes increased by 6% to 296.3 billion cubic feet in 1989 resulting in a revenue increase of approximately 5%. During 1988 export volumes marketed by Western Gas increased by 86% over 1987 and resulting revenues increased by over 118%.

INCOME FROM ASSOCIATED PIPELINES

The Company's investments in Northern Border and Trans Québec & Maritimes Pipeline Inc. are held through partnerships and, as a result, the Company records its proportionate share of income on a pre-tax basis. The Company's investment in Great Lakes Gas Transmission Company ("Great Lakes") and Foothills Pipe Lines (Sask.) Ltd. are accounted for on an after-tax basis.

Income from associated pipelines decreased by $13.4 million in 1989 compared to 1988 and by $14.4 million in 1988 from 1987 levels principally due to lower earnings from United States pipeline investments. The decrease in 1989 and 1988 reflects the decline in the value of the United States dollar and its impact on the translation of the equity earnings of the Company's two United States pipeline investments, Northern Border and Great Lakes. The other major factor contributing to the decline in 1989 was a lower return on the Company's investment in Northern Border due to anticipated toll modifications. In addition, 1988 earnings declined in comparison to 1987 as Great Lakes 1987 earnings included $5.7 million related to a settlement agreement reached with its customers. Earnings from the Company's investments in associated Canadian pipelines in 1989 were comparable to previous years.

OTHER INCOME/(EXPENSE)

This caption primarily represents interest earned on cash deposits, and an Allowance for Funds Used During Construction (''AFUDC'').

Interest and other income increased by $39.8 million in 1989 over 1988. This is due principally to higher balances on deposit, including the $493 million return of investment TransCanada received from the oil and gas restructuring transactions. Reference should be made to Note 5 (a) to the financial statements with respect to the Company's cash and short-term investment positions in 1989 and 1988. The decline of $12.9 million between 1988 and 1987 arises from lower balances on deposit during 1988 resulting from the use of a portion of such deposits to partly finance the acquisition of Encor Energy Corporation Inc.

AFUDC is, generally speaking, an allowance for the cost of funds used to finance construction of utility assets upon which the regulator will allow the Company to earn a return. AFUDC is capitalized and included in the cost of gas plant under construction. The rate employed in calculating this allowance is the NEB's approved rate of return on rate base. The increase in AFUDC from the 1988 and 1987 levels reflects the major increase in the level of construction activity during 1989.

As discussed in Note 17 to the financial statements, in 1988 the Company determined that the carrying value of certain assets should be reduced due to the uncertainty of their ultimate carrying value. As a result, the Company recorded a provision in its 1988 accounts totalling $29.0 million, before and after tax. There were no such provisions in 1989 or 1987.

FINANCIAL CHARGES

Financial charges declined $5.1 million in 1989 compared to 1988. Non-regulated financial charges declined $18.4 million reflecting the favorable effects of the Company's cash and debt management program, discussed more fully in Note 5, as well as a strengthening of the Canadian dollar in comparison to the Swiss franc which reduced amortization charges related to unrealized foreign exchange losses. The Company has a significant amount of debt denominated in Swiss francs which was borrowed at an average rate of approximately 59 cents per Swiss franc. Through the Company's systematic hedging program which began in 1987, 424.7 million Swiss francs have been exchanged through swap agreements into Cdn. $343.3 million as at December 31, 1989 thereby eliminating the Company's exposure to future foreign exchange fluctuations on this principal amount. At the end of 1989 the Swiss franc had declined to 75 cents compared to 79 cents in 1988 and a high of $1.02 at the end of 1987. In accordance with Canadian generally accepted accounting principles, the Company amortizes unrealized exchange losses over the remaining life of the individual debt issues. Financial charges in 1989 were $12.1 million lower than in 1988 and $9.4 million lower in 1988 than in 1987 due to the decreased amortization charges with respect to the unrealized foreign exchange losses.

At the end of January 1990 the Company completed its Swiss franc hedging program thereby removing any further foreign exchange exposure with respect to its Swiss franc debt.

The Gas Transmission segment's financial charges in 1989 increased $13.3 million mainly due to the financing of the Company's 1989 construction program. During the last half of the year the Company issued $505 million aggregate principal amount of debentures to reduce the notes payable associated with the interim financing of this construction.

INCOME TAXES

Income taxes declined in 1989 to $50.5 million from $143.2 million in 1988. Due to an accounting change discussed more fully in Note 1 to the financial statements, 1989 income tax expense has been reduced by $21.1 million arising from the application of prior years' income tax losses. In addition, the Company follows the taxes payable method of accounting for income taxes related to the regulated operations of the Gas Transmission segment. As can be seen from Note 8 (d) to the financial statements, Canadian pipeline income not currently subject to tax increased $45.5 million over 1988. In 1988 income taxes were increased by the expensing of $43.2 million of previously recorded U.S. income tax benefits. After adjusting for this item, income taxes in 1988 declined in comparison to 1987 due to a combination of lower taxable income and a lower effective federal statutory tax rate resulting from federal income tax amendments.

DISCONTINUED OIL AND GAS OPERATIONS

As discussed more fully in Note 18 to the financial statements, on May 2, 1989, the Company implemented a Plan of Arrangement. Under the Plan of Arrangement, TransCanada combined its remaining oil and natural gas exploration, development and production business under one corporate entity, Encor Inc. The common shares of Encor Inc. were then distributed to the Company's common shareholders eliminating the Company's investment.

Losses from discontinued oil and gas operations in the first four months of 1989 amounted to $13.4 million or 9 cents per share compared to a full year loss of $80.9 million or 55 cents per share in 1988. Total losses from these operations in 1987 amounted to $11.4 million or 9 cents per share. The loss of $80.9 million in 1988 includes a loss of $52.7 million resulting from the sale of the United States oil and gas assets effective July 1, 1988.

LIQUIDITY AND CAPITAL RESOURCES

In 1989 cash generated internally from continuing and discontinued operations amounted to $370.9 million and financing activities, including the proceeds from the sale of assets of $103.5 million, provided another $564.1 million. As part of the oil and gas restructuring transactions completed on May 2, 1989 TransCanada received $493 million of cash as a return of its investment. These sources of funds were more than sufficient to meet all the 1989 capital expenditure requirements, retire long-term debt and pay dividends on preferred and common shares.

During 1989, through the issue of common and preferred shares, sale of assets and the issue of lower-cost financing, the Company repaid $221.0 million of long-term debt and reduced its notes payable by $44.0 million while almost doubling its cash balances from the December 31, 1988 level. During 1988, also through the issue of common shares, sale of assets and the issue of lower-cost financing, the Company repaid $447.1 million of long-term debt and reduced notes payable by $245.1 million without reducing cash balances as it had in 1987. The Company did draw down on its cash balances at the end of 1987 for use in the Encor Energy Corporation Inc. acquisition.

Early in 1990, two major commitments made by TransCanada in previous years have been significantly reduced. In January 1990, TransCanada sponsored a refinancing of the Topgas program, a series of financings arranged with banks and natural gas producers in the early 1980s that served as a type of production loan to gas producers. As discussed in Note 19 (a) to the financial statements, TransCanada had indemnified the Topgas companies in respect of certain events to a total of $360 million. This limited indemnity has been reduced to 10% of the outstanding balance, or $120 million at January 10, 1990. Further, as discussed in Note 19 (c) to the financial statements, it is anticipated that by the end of the first quarter of 1990 a refinancing of

the Northern Border partnership's outstanding debt, of U.S. $442.3 million at December 31, 1989, will eliminate the requirement whereby TransCanada may have to make funds available to the Northern Border partnership.

During 1989 and 1988, TransCanada's common share dividend remained at 17 cents per quarter. This dividend level was established in recognition of the substantial funding for exploration and development activities that would have been required by the discontinued oil and gas operations. While the cash demands forecast for those discontinued operations will not be required as a result of the Plan of Arrangement, the capital requirements with respect to the Gas Transmission segment in the early 1990s will place a significant demand on the Company for capital.

Capital expenditures in 1990 for all of TransCanada's mainline facilities and for equity contributions to its investments and projects are expected to be $786 million. The Gas Transmission segment's portion of these capital expenditures is estimated to be $674 million. Of this amount, about $600 million is related to pipeline expansion which has been conditionally approved by the NEB. Several factors will affect the actual size and timing of the expansion. They are NEB export licence approvals for certain export volumes, U.S. approval of certain imports, connecting U.S. pipeline facilities, and renewal of certain sales contracts. This expansion is in conjunction with construction on the Great Lakes Gas Transmission system which is expected to be completed in 1991. In addition, scheduled repayments of long-term debt will require an additional $114.5 million. Such cash requirements are expected to be met by way of internally generated funds and external financing.

OUTLOOK

The Company has applied for approval of approximately $2.6 billion of facilities expansions in 1991 and 1992. The application seeks to add 1 592 kilometers of pipe and 321,000 horsepower of compression to TransCanada's natural gas pipeline system over the two year period. The expansion will allow the Company to transport an estimated additional 831.5 million cubic feet of natural gas daily.

Should the NEB approve this expansion as currently applied for, then the Gas Transmission segment's contribution to the net income of the Company and to earnings per share will improve.

Year ended December 31 *(stated in millions of dollars except per share amounts)*	**1989**	1988	1987
Revenues *(Note 2)*	**3,082.9**	3,268.7	3,161.1
Costs and Expenses *(Note 2)*	**2,654.9**	2,801.1	2,640.1
Operating Income	**428.0**	467.6	521.0
Income from Associated Pipelines *(Note 4)*	**54.5**	67.9	82.3
Other Income/(Expense)			
Interest and other income *(Note 5)*	**76.7**	36.9	49.8
Allowance for funds used during construction			
Debt	**16.6**	2.4	1.6
Equity	**11.5**	1.5	1.0
Investment and asset provisions *(Notes 1 and 17)*	**—**	(29.0)	—
	104.8	11.8	52.4
Income before Financial Charges and Income Taxes	**587.3**	547.3	655.7
Financial Charges *(Notes 5 and 7)*	**326.7**	331.8	355.4
Income before Income Taxes	**260.6**	215.5	300.3
Income Taxes *(Notes 1 and 8)*	**50.5**	143.2	128.9
Income from Continuing Operations	**210.1**	72.3	171.4
Loss from Discontinued Oil and Gas Operations *(Note 18)*	**(13.4)**	(80.9)	(11.4)
Net Income/(Loss) for the Year	**196.7**	(8.6)	160.0
Per Common Share Data *(Note 10)*			
Income from Continuing Operations	**$1.18**	$0.24	$1.05
Loss from Discontinued Operations	**(0.09)**	(0.55)	(0.09)
Net Income/(Loss) for the Year	**$1.09**	$(0.31)	$0.96

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Year ended December 31 *(stated in millions of dollars)*	**1989**	1988	1987
Cash Generated Internally			
Income from continuing operations	**210.1**	72.3	171.4
Investment and asset provisions	**—**	29.0	—
Depreciation	**111.7**	109.8	104.4
Deferred income taxes	**4.5**	60.0	(116.9)
Equity income less dividends received from investments	**(17.4)**	6.4	10.0
Allowance for equity funds used during construction	**(11.5)**	(1.5)	(1.0)
Amortization of deferred charges	**(7.7)**	10.5	78.3
Funds generated from continuing operations	**289.7**	286.5	246.2
Decrease/(increase) in operating working capital from continuing operations *(Note 16)*	**36.8**	(8.8)	85.3
Cash generated from continuing operations	**326.5**	277.7	331.5
Cash generated from discontinued oil and gas operations	**44.4**	155.5	69.6
	370.9	433.2	401.1
Investment Activities			
Capital expenditures	**671.0**	146.4	96.2
Associated pipelines	**3.1**	—	—
Deferred charges and other	**21.2**	79.3	19.5
Discontinued oil and gas operations			
Investment	**72.1**	355.9	431.2
Return of investment *(Note 18)*	**(493.5)**	—	—
Disposal of United States oil and gas properties	**—**	(141.5)	—
	273.9	440.1	546.9
Reduction of Long-Term Debt	**221.0**	447.1	152.6
Dividends Paid	**142.3**	144.3	180.0
Financing Activities			
Long-term debt—new financing	**573.8**	422.6	267.7
Common shares issued	**31.3**	279.6	100.8
Preferred shares issued	**74.6**	—	78.8
Preferred shares redeemed	**(175.1)**	—	(83.4)
Decrease in notes payable	**(44.0)**	(245.1)	(182.7)
Sale of assets	**103.5**	142.3	—
	564.1	599.4	181.2
Increase/(Decrease) in Cash and Short-Term Investments	**297.8**	1.1	(297.2)
Cash and Short-Term Investments—at beginning of year	**317.3**	316.2	613.4
Cash and Short-Term Investments—at end of year	**615.1**	317.3	316.2

The accompanying notes to the consolidated financial statements are an integral part of these statements.

December 31 *(stated in millions of dollars)*	**1989**	1988
ASSETS		
Current Assets		
Cash and short-term investments *(Note 5)*	**615.1**	317.3
Accounts receivable *(Note 14)*	**255.9**	381.6
Inventories – Line pack gas and gas stored underground	**46.6**	46.3
– Materials and supplies	**40.8**	37.3
Total current assets	**958.4**	782.5
Payments on Future Gas Supply *(Note 11)*	**37.0**	38.2
Investments in Associated Pipelines *(Note 4)*	**318.4**	310.2
Discontinued Oil and Gas Operations *(Note 18)*	**–**	1,153.7
Plant, Property and Equipment *(Notes 3 and 6)*	**3,144.0**	2,575.0
Deferred Charges and Other Assets *(Note 12)*	**165.6**	163.3
	4,623.4	5,022.9
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable *(Note 5)*	**–**	44.0
Accounts payable *(Note 14)*	**325.8**	301.2
Income taxes payable	**11.3**	31.3
Interest accrued	**124.7**	114.4
Dividends payable	**32.7**	40.9
Long-term debt due within one year *(Note 6)*	**114.5**	88.2
Total current liabilities	**609.0**	620.0
Long-Term Debt *(Note 6)*	**2,443.7**	2,137.2
Deferred Income Taxes	**57.8**	55.7
Commitments and Contingencies *(Note 19)*		
Preferred Shares (redeemable) *(Note 9)*	**343.7**	443.9
Common Shareholders' Equity		
Common shares *(Note 10)*	**400.2**	1,043.3
Contributed surplus	**271.6**	277.8
Retained earnings	**510.9**	448.3
Foreign exchange adjustment	**(13.5)**	(3.3)
	1,169.2	1,766.1
	4,623.4	5,022.9

The accompanying notes to the consolidated financial statements are an integral part of these statements.

On behalf of the Board:

, Director   J. V. R. Cyr, Director

Year ended December 31 *(stated in millions of dollars except per share amounts)*	**1989**	1988	1987
Contributed Surplus			
Balance at beginning of year	**277.8**	282.0	285.1
Plan of Arrangement expenses *(Note 10)*	**(5.7)**	–	–
Share issue expenses	**(0.5)**	(4.2)	–
Redemption of preferred and cancellation of common shares	**–**	–	(3.1)
Balance at end of year	**271.6**	277.8	282.0
Retained Earnings			
Balance at beginning of year	**448.3**	596.0	616.1
Net income/(loss) for the year	**196.7**	(8.6)	160.0
	645.0	587.4	776.1
Dividends declared			
Preferred—as required by terms of issue *(Note 9)*	**30.9**	37.4	38.2
Common	**103.2**	101.7	141.9
	134.1	139.1	180.1
Balance at end of year	**510.9**	448.3	596.0
Dividends per common share	**$0.68**	$0.68	$1.12

The accompanying notes to the consolidated financial statements are an integral part of these statements.

AUDITORS' REPORT

KPMG Peat Marwick Thorne

To The Shareholders of TransCanada PipeLines Limited— We have examined the statements of consolidated financial position of TransCanada PipeLines Limited as at December 31, 1989 and December 31, 1988 and the statements of consolidated income, contributed surplus, retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1989. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1989 and December 31, 1988 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1989 in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for extraordinary items as described in Note 1, on a consistent basis.

Toronto, Canada
January 22, 1990

Peat Marwick Thorne
Chartered Accountants

NOTE 1 • ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared by Management in accordance with accounting principles generally accepted in Canada. Reference is made to Note 20 with respect to significant differences between these accounting principles and those generally accepted in the United States ("U.S. GAAP"). Amounts are stated in Canadian dollars unless otherwise indicated. These consolidated financial statements contain the disclosures required to conform in all material respects with International Accounting Standards on an historical cost basis. The significant accounting policies of the Company are summarized below:

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and its subsidiaries except for discontinued operations. The Company uses the equity method of accounting for its major investments in associated pipelines. Investments in which the Company does not exercise significant influence and projects which are in the development stage are included at cost in Deferred Charges and Other Assets.

REGULATION

The Company is subject to the authority of the National Energy Board ("NEB") with respect to the determination of tolls and related accounting for the natural gas transmission system (the "Gas Transmission segment") as further described in Note 2. In order to achieve a proper matching of revenues and expenses the timing of recognition of certain revenues and expenses may differ from that otherwise expected under generally accepted accounting principles applicable to non-regulated companies.

The associated pipelines are also subject to the authority of certain regulatory bodies.

CASH AND SHORT-TERM INVESTMENTS

The Company's short-term investments are considered to be cash equivalents and are recorded at cost.

INVENTORIES

Inventories include line pack gas which is valued and charged to operations in accordance with the regulatory process. Materials and supplies and gas stored underground are recorded at cost and charged to operations at average cost.

PLANT, PROPERTY AND EQUIPMENT

Gas Transmission — Gas transmission plant is carried at cost. Depreciation is calculated on a straight-line basis using rates approved by the NEB: 2.5% for pipelines, 3.5% for compressor stations and other transmission plant and various rates for general plant and equipment. An allowance for funds used during construction is capitalized and included in the cost of gas plant under construction. The rate employed in calculating this allowance is the NEB's approved rate of return on rate base.

Gas Sales, Marketing and Other — Plant, property and equipment is carried at cost and depreciated on a straight-line basis over estimated service lives.

FOREIGN CURRENCY AND INTEREST RATES

Transactions and accounts in a currency other than a domestic currency are translated into the domestic currency using the temporal method. Certain long-term debt payable in foreign currencies is exchanged through swap agreements into other currencies. Such debt is accounted for using exchange rates applicable to the currencies into which it has been swapped. Foreign exchange gains and losses on Gas Transmission segment related debt are included in income as they are dealt with in the tollmaking process. Other foreign exchange gains and losses are included in income in the current period except for unrealized gains and losses related to non-hedged monetary assets and liabilities with a fixed or ascertainable life extending beyond one year. These unrealized gains and losses are deferred and amortized to income over the remaining life of such assets or liabilities.

The accounts of self-sustaining foreign operations are translated into Canadian dollars using the current rate method. The resulting translation adjustments are reflected in a separate component of shareholders' equity. The Company regards non-utility debt swapped into U.S. dollars as a partial hedge of its net investment in the United States.

In addition to hedges of long-term debt, the Company may, from time to time enter into forward contracts, options and swaps to reduce its exposure to other interest rate and foreign currency risks. Gains and losses on these contracts are amortized over the period that the contract has been designated as a hedge of the specific exposure.

INCOME TAXES

The Company follows the taxes payable method of accounting for income taxes related to the regulated operations of the Gas Transmission segment. This method is prescribed by the NEB for tollmaking purposes. Since there is reasonable expectation that all such taxes will be included in future costs of service and recovered in revenues at such time, this method is being followed for accounting purposes. For all other operations the Company follows the deferral method of tax allocation accounting.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Company provides its retired employees with certain medical benefits and life insurance. These benefits are expensed when the costs are paid.

CHANGE IN ACCOUNTING POLICY

The Company has retroactively adopted the recently issued accounting recommendation of the Canadian Institute of Chartered Accountants for Extraordinary Items. A reduction of income tax expense in 1989 arising from the application of prior years' losses in the amount of $21.1 million or 14 cents per share would previously have been recorded as an extraordinary item. A provision for previously recorded U.S. income tax benefits, in the amount of $43.2 million or 29 cents per share, included in investment and asset provisions in 1988 has been reclassified to income tax expense. The remaining investment and asset provisions in 1988 of $29.0 million or 20 cents per share are now disclosed under the caption Other Income/(Expense). The adoption of this accounting policy impacts presentation only and has no effect on reported net income.

COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current financial statement presentation.

NOTE 2 • SEGMENTED AND OTHER INFORMATION

The Company operates principally in two segments:

(i) Gas Transmission The Company owns and operates a natural gas transmission system which extends from Alberta into Québec. The gas transmission system transports natural gas to regional gas distribution and transmission companies in Canada and the United States.

Matters such as tolls, construction, operations and accounting in connection with the gas transmission system are subject to the authority of the NEB. Tolls are determined by the NEB on a net plant, rate base, rate of return and cost of service basis.

In August 1989, the NEB issued its tolls decision which, among other things, set the Company's rate of return for 1988 at 13.25% and for 1989 at 13.75%, both based on a deemed common equity of 30%. The decision did not require any change to the Company's previously reported earnings.

(ii) Gas Sales, Marketing and Other The operations of Western Gas Marketing Limited ("Western Gas"), a wholly owned subsidiary, are included in this segment. Western Gas administers all of the Company's gas purchase contracts with producers and all gas sales contracts with domestic and export customers.

Other operations included in this segment are the manufacturing and sale of thermal carbon black, the extraction of natural gas liquids and ethane from natural gas, pipeline inspection services as well as general corporate overhead.

The Company's financial data by business segment is as follows:

(A) BUSINESS SEGMENTS

Year ended December 31 *(millions of dollars)*	**1989**	1988	1987
Revenues			
Gas Transmission			
Domestic deliveries	**681.7**	716.4	1,039.7
Export deliveries	**202.5**	185.5	222.9
Other revenues	**5.3**	6.4	5.5
	889.5	908.3	1,268.1
Gas Sales, Marketing and Other			
Domestic sales	**1,523.2**	1,707.6	1,540.5
Export sales	**570.8**	545.0	249.7
Other revenues	**99.4**	107.8	102.8
	2,193.4	2,360.4	1,893.0
Total revenues	**3,082.9**	3,268.7	3,161.1
Costs and expenses			
Gas Transmission			
Operating costs	**370.5**	344.3	654.4
Depreciation	**101.0**	95.0	94.0
	471.5	439.3	748.4
Gas Sales, Marketing and Other			
Operating costs	**2,172.7**	2,347.0	1,881.3
Depreciation	**10.7**	14.8	10.4
	2,183.4	2,361.8	1,891.7
Total costs and expenses	**2,654.9**	2,801.1	2,640.1
Operating income			
Gas Transmission	**418.0**	469.0	519.7
Gas Sales, Marketing and Other	**10.0**	(1.4)	1.3
	428.0	467.6	521.0
Capital expenditures			
Gas Transmission	**669.5**	127.6	82.9
Less allowance for equity funds used during construction	**11.5**	1.5	1.0
	658.0	126.1	81.9
Gas Sales, Marketing and Other	**13.0**	20.3	14.3
	671.0	146.4	96.2

December 31 *(millions of dollars)*	**1989**	1988	1987
Business segment assets			
Gas Transmission	**3,214.2**	2,810.0	2,836.6
Gas Sales, Marketing and Other	**330.1**	257.5	258.8
	3,544.3	3,067.5	3,095.4
Investments in associated pipelines	**318.4**	310.2	344.5
Corporate assets	**760.7**	491.5	735.0
Discontinued operations	**—**	1,153.7	1,181.7
	4,623.4	5,022.9	5,356.6

Due to the regulatory process, variations in gas transmission revenues and volumes by themselves do not have an impact on net income. Gas Transmission revenues and operating expenses are not comparable between 1987 and subsequent years because in 1987, the Company purchased and recovered in revenues the compressor fuel required to operate the transmission system while in subsequent years compressor fuel has been supplied by the Company's transportation customers.

(B) PRINCIPAL CUSTOMERS

The following table sets forth the Company's revenues generated from the sale and transmission of natural gas under long-term contracts with its five principal customers:

Year ended December 31 *(millions of dollars)*	**1989**	1988	1987
The Consumers' Gas Company Ltd.	**698.4**	847.9	943.0
ICG Utilities (Ontario) Ltd.	**319.2**	309.8	302.3
Gaz Métropolitain, inc.	**308.1**	285.3	373.8
Union Gas Limited	**302.5**	399.9	598.9
Great Lakes Gas Transmission Company	**153.2**	200.6	168.0

NOTE 3 • PLANT, PROPERTY AND EQUIPMENT

December 31 *(millions of dollars)*	**1989**	1988
Gas Transmission		
Gas plant in service	**3,940.7**	3,535.4
Gas plant under construction	**301.6**	52.4
Other	**22.6**	16.2
	4,264.9	3,604.0
Gas Sales, Marketing and Other	**135.6**	128.5
	4,400.5	3,732.5
Accumulated depreciation	**(1,256.5)**	(1,157.5)
	3,144.0	2,575.0

NOTE 4 • INVESTMENTS IN ASSOCIATED PIPELINES

The Company's investments in associated pipelines at December 31, 1989, 1988 and 1987 and its share of the earnings from those investments for the years then ended are:

	1989		1988		1987	
(millions of dollars)	**Investment**	**Equity Earnings**	Investment	Equity Earnings	Investment	Equity Earnings
Great Lakes Gas Transmission Company	**66.4**	**16.7**	51.6	18.4	67.0	25.7
Northern Border Pipeline Company	**181.6**	**27.6**	190.1	39.0	205.8	45.4
Foothills Pipe Lines (Sask.) Ltd.	**27.1**	**4.3**	23.8	4.3	25.5	4.6
Trans Québec & Maritimes Pipeline	**43.3**	**5.9**	44.7	6.2	46.2	6.6
	318.4	**54.5**	310.2	67.9	344.5	82.3

Investments in Northern Border Pipeline Company and Trans Québec & Maritimes Pipeline Inc. are held through partnerships and as a result the Company records its proportionate share of income on a pre-tax basis. Dividends and distributions received from the investments in associated pipelines amounted to $41.9 million, $77.2 million and $94.2 million for the

years ended December 31, 1989, 1988 and 1987, respectively. Consolidated retained earnings at December 31, 1989, includes $88.0 million (December 31, 1988 – $75.4 million), which represents undistributed earnings of investments accounted for by the equity method.

GREAT LAKES GAS TRANSMISSION COMPANY

The Company owns 50% of Great Lakes Gas Transmission Company ("Great Lakes") which operates a pipeline system extending from the Canada/United States border near Emerson, Manitoba through the United States to the vicinity of Sarnia, Ontario. Great Lakes purchases gas from the Company for resale to United States customers and transports gas for the Company to eastern Canada. The following sets out summarized financial information for Great Lakes:

December 31 *(millions of U.S. dollars)*	**1989**	1988
Natural gas transmission plant *(net)*	**424.1**	270.8
Current assets	**47.9**	42.2
Current liabilities	**(206.1)**	(67.8)
Deferred credits	**(94.5)**	(92.1)
Long-term debt	**(53.5)**	(65.2)
Shareholders' equity	**117.9**	87.9

Year ended December 31 *(millions of U.S. dollars)*	**1989**	1988	1987
Operating revenues	**245.1**	280.3	261.1
Operating expenses	**(194.0)**	(223.5)	(180.3)
Interest	**(6.3)**	(7.9)	(6.6)
Income taxes	**(14.8)**	(16.6)	(31.4)
Net income	**30.0**	32.3	42.8

NORTHERN BORDER PIPELINE COMPANY

The Company owns a 30% interest in the Northern Border Pipeline Company, a partnership which owns a natural gas pipeline extending from the Canada/United States border near Monchy, Saskatchewan to a point near Ventura, Iowa. The following sets out summarized financial information for Northern Border Pipeline Company:

December 31 *(millions of U.S. dollars)*	**1989**	1988
Natural gas transmission plant *(net)*	**926.8**	991.2
Current assets	**79.9**	45.8
Current liabilities	**(85.7)**	(65.6)
Deferred credits	**(278.6)**	(254.1)
Long-term debt	**(394.3)**	(449.3)
Partners' equity	**248.1**	268.0

Year ended December 31 *(millions of U.S. dollars)*	**1989**	1988	1987
Operating revenues	**230.8**	209.6	231.5
Operating expenses	**(102.9)**	(80.4)	(78.1)
Interest	**(48.2)**	(41.0)	(43.5)
Income before income taxes	**79.7**	88.2	109.9

FOOTHILLS PIPE LINES (SASK.) LTD.

The Company is the operator and owns 44% of Foothills Pipe Lines (Sask.) Ltd. ("Foothills (Sask.)") which owns a pipeline extending from the Alberta/Saskatchewan border near Empress, Alberta to the Canada/United States border near Monchy, Saskatchewan where it connects with the Northern Border pipeline. The following sets out summarized financial information for Foothills (Sask.):

December 31 *(millions of dollars)*	**1989**	1988
Natural gas transmission plant *(net)*	**285.3**	275.8
Current assets	**11.3**	10.2
Current liabilities	**(3.2)**	(3.5)
Deferred credits	**(61.0)**	(60.4)
Long-term debt	**(162.3)**	(156.0)
Shareholders' equity	**70.1**	66.1

Year ended December 31 *(millions of dollars)*	**1989**	1988	1987
Operating revenues	**58.9**	56.4	63.5
Operating expenses	**(21.7)**	(22.3)	(23.8)
Interest	**(19.6)**	(15.7)	(16.2)
Income taxes	**(7.9)**	(9.4)	(13.0)
Net income	**9.7**	9.0	10.5

TRANS QUÉBEC & MARITIMES PIPELINE

The Company owns 50% of the shares of Trans Québec & Maritimes Pipeline Inc. ("TQM"). TQM is the agent of a partnership, in which the Company is an equal partner, formed to own and operate a natural gas transmission system extending from the vicinity of Montreal to Québec City, Québec. The following sets out summarized financial information for TQM:

December 31 *(millions of dollars)*	**1989**	1988
Natural gas transmission plant *(net)*	**385.6**	398.2
Current assets	**7.3**	7.2
Deferred charges	**1.4**	1.8
Current liabilities	**(9.3)**	(11.6)
Bank loans	**(7.0)**	(13.0)
First mortgage bonds	**(281.0)**	(281.0)
Partners' equity	**97.0**	101.6

Year ended December 31 *(millions of dollars)*	**1989**	1988	1987
Operating revenues	**70.7**	119.9	132.3
Operating expenses	**(22.1)**	(69.6)	(80.8)
Interest	**(37.6)**	(38.6)	(39.1)
Income before income taxes	**11.0**	11.7	12.4

NOTE 5 • CASH AND DEBT MANAGEMENT

The Company actively manages its cash and short and long-term debt positions. This management includes the use of forward contracts, options and swaps to reduce interest rate and foreign exchange risks and applies to the Company's net assets denominated in foreign currencies, including cash and short-term investments, notes payable, long-term investments and long-term debt. The risk of loss resulting from counter-parties to such transactions defaulting on their obligations is controlled through credit approvals, credit limits and monitoring procedures. The Company believes that this risk has been minimized by dealing only with major 'A' or better rated international financial institutions.

At December 31, 1989 the Company had net assets denominated in United States dollars of approximately U.S. $409.9 million comprised principally of cash and short-term investments and investments in United States associated pipelines. To reduce the effect of changes in the U.S./Cdn. dollar exchange rate on the Company's financial statements, contracts to sell U.S. $243.2 million were outstanding at December 31, 1989. Premiums with respect to these foreign exchange contracts are initially deferred and then amortized over the terms of the contracts. As a result, during 1989 the Company amortized $14.4 million as a reduction of financial charges and, at December 31, 1989, $1.2 million remained to be amortized with respect to contracts outstanding at that date. The following summarizes the Company's position with respect to cash and short-term investments and notes payable as at December 31, 1989 and 1988:

(A) CASH AND SHORT-TERM INVESTMENTS

	Balance at End of Year	Weighted Average Rate Per Annum End of Year	Average Amount Outstanding During the Year	Weighted Average Rate Per Annum During the Year
	(millions of dollars)		*(millions of dollars)*	
1989				
Term Deposits				
- in Cdn. $ accounts	**297.8**	**12.4%**	**30.2**	**12.2%**
- in U.S. $ accounts	**270.1**	**8.7%**	**611.6**	**9.3%**
Other	**47.2**	**8.8%**	**45.0**	**8.7%**
	615.1			
1988				
Term Deposits				
- in Cdn. $ accounts	2.0	9.3%	27.3	8.8%
- in U.S. $ accounts	262.5	9.6%	160.1	7.6%
Other	52.8	8.3%	50.8	6.8%
	317.3			

With respect to interest rate risk management pertaining to cash and short-term investments set out in table (A) above, during 1989 the Company entered into forward rate agreements and swapped interest obligations with notional principal amounts aggregating to approximately U.S. $2.1 billion. These transactions were closed out in 1989 for settlement over periods ending in 1991. From these transactions, the Company earned an estimated $12.2 million of which $3.9 million has been recorded as interest and other income with the remainder being deferred for amortization in 1990 and 1991.

(B) NOTES PAYABLE

	Balance at End of Year	Weighted Average Rate Per Annum End of Year	Average Amount Outstanding During the Year	Weighted Average Rate Per Annum During the Year
	(millions of dollars)		(millions of dollars)	
1989				
Bank loans	—	—	**165.2**	**12.2%**
Commercial paper	—	—	**225.6**	**12.0%**
1988				
Bank loans	—	—	115.3	8.8%
Commercial paper	44.0	10.8%	74.2	9.2%

The weighted average cost of bank loans are an average of United States dollar and Canadian dollar bank borrowing rates.

During 1989, the Company closed out interest rate swaps with notional principal amounts of $200 million which were entered into in the last half of 1988 to hedge interest rates pertaining to notes payable as set out in table (B) above. The cost of this transaction in 1989 amounted to $1.3 million and is included in financial charges. In addition, during 1989 the Company entered into forward rate agreements with notional principal amounts aggregating approximately $2.3 billion. These transactions were also closed out in 1989 for settlement over periods ending in 1990. Profits earned on these transactions totalled $3.1 million. In 1989, financial charges have been reduced by $2.7 million and $400,000 remains to be amortized into income in 1990.

The Company had unused lines of credit of $382.4 million at December 31, 1989 ($140.0 million – 1988). These borrowing arrangements are generally available to the Company at prime rates of Canadian chartered banks and on other pricing bases.

In December 1986, a subsidiary of the Company arranged a U.S. $300 million Note Issuance Facility in the Euromarket. Under this Facility, short-term Euronotes, guaranteed by the Company, may be issued at current rates until December 1993. As at December 31, 1989, no notes had been issued.

The Company has certain long-term debt and related interest payable in foreign currencies (reference should be made to Note 6) which, as at December 31, 1989, had been swapped into the equivalent of Canadian $634.1 million. Of this amount, $343.3 million relates to the Company's systematic program of hedging the foreign exchange risk relating to its Swiss franc debt. During 1989, the Company recorded $10.1 million as an increase in financial charges with respect to the hedged Swiss franc debt and based upon the Swiss franc exchange rate at December 31, 1989, has deferred $12.5 million of losses which are to be amortized over the remaining terms of the debt. In addition, during 1989 the Company entered into fixed/floating rate swaps on notional principal amounts of Sfr. 200 million which were subsequently closed out. The total cost of these transactions of $1.7 million is being amortized over the period to which the original swap pertained and approximately $250,000 has been included in financial charges during 1989.

NOTE 6 • LONG-TERM DEBT

Classification	Maturity Dates	**1989** Outstanding December 31 (2)	**1989** Average Interest Rate (3)	1988 Outstanding December 31 (2)	1988 Average Interest Rate (3)
UTILITY *(1)*					
First Mortgage Pipe Line Bonds					
Denominated in Canadian dollars	1992 and 1993	**38.6**	**9.1%**	48.9	9.1%
Denominated in United States dollars (1989 U.S. $370.3; 1988 U.S. $399.7)	1996 and 1997	**428.8**	**16.2%**	476.7	16.2%
Denominated in Pounds Sterling (1989 £25.0; 1988 £25.0)	2007	**46.7**	**16.5%**	54.0	16.5%
Debentures (Series A to H and J to Q)					
Denominated in Canadian dollars	1990 to 2019	**1,084.4**	**11.0%**	622.0	11.2%
Notes					
Denominated in New Zealand dollars (1989 NZ $125.0; 1988 NZ $125.0) *(6)*	1993	**104.1**	**15.3%**	104.1	16.5%
		1,702.6		1,305.7	
Exchange differential recoverable through the tollmaking process		**10.3**		(8.0)	
Total Utility Long-Term Debt		**1,712.9**		1,297.7	
NON-UTILITY					
Debentures (Series I)					
Denominated in Canadian dollars	1993	**100.0**	**11.7%**	100.0	11.7%
Notes					
Denominated in Swiss francs (1989 Sfr.788.5; 1988 Sfr.802.2) *(4)*	1991 to 1995	**596.5**	**8.9%**	630.3	8.0%
Denominated in Australian dollars (1989 A. $40.0; 1988 A. $40.0) *(5)*	1990	**32.1**	**8.5%**	33.1	8.5%
Denominated in New Zealand dollars (1989 NZ $175.0; 1988 NZ $175.0) *(6)*	1993	**116.2**	**15.2%**	116.2	16.4%
Term Loans					
Denominated in Canadian dollars	1996 and 1999	**—**	**—**	46.6	9.4%
Other Debt	—	**0.5**	**—**	1.5	—
Total Non-Utility Long-Term Debt		**845.3**		927.7	
Total Long-Term Debt		**2,558.2**		2,225.4	
Less: Due Within One Year		**114.5**		88.2	
		2,443.7		2,137.2	

(1) Utility long-term debt of the Company finances the Gas Transmission segment.

(2) Amounts outstanding are stated in millions of Canadian dollars; amounts denominated in other than Canadian dollars are stated in millions.

(3) Current weighted average interest rates are stated as at the respective outstanding dates and include, where applicable, effective interest rates arising from swaps.

(4) In 1989, 13.7 million Swiss franc notes were repurchased. As at December 31, 1989, 424.7 million Swiss francs have been exchanged through swap agreements into Cdn. $343.3 million (December 31, 1988 – 262.5 million Swiss francs into Cdn. $224.7 million) and 104 million Swiss francs have been exchanged through a swap agreement into U.S. $50 million (December 31, 1988 – 104 million Swiss francs into U.S. $50 million).

(5) The amount denominated in Australian dollars was exchanged through a swap agreement into U.S. $27.7 million. Interest is payable at floating rates approximating the six month London Interbank Offered Rate.

(6) The amounts denominated in New Zealand dollars were exchanged for Canadian obligations through a series of forward foreign exchange contracts.

FIRST MORTGAGE PIPE LINE BONDS

The Deed of Trust and Mortgage securing the Company's first mortgage pipe line bonds provides for a first charge on all real and immovable property and rights of the Company and on substantially all of the Company's gas transmission, gas purchase, gas sales and gas product sales contracts and also provides for a first floating charge on all remaining assets. All series of bonds, with the exception of the series denominated in pounds sterling, are subject to mandatory sinking fund provisions which require the Company to retire prescribed amounts of each series annually prior to maturity.

DEBENTURES

During 1989 and 1988, the Company issued $505 million and $125 million, respectively, aggregate principal amount of debentures. The proceeds from the debentures issued in 1989 have been used to reduce notes payable incurred to finance the Gas Transmission segment's 1989 construction program. The terms of the debentures are as follows:

Issue	Principal Amount	Maturity Date	Interest Rate
	(millions of dollars)		
1989			
Series N	$125	June 20, 2014	11.1% paid annually
Series O	$130	August 20, 2010	10.5% paid semi-annually
Series P	$100	March 20, 2019	10.5% paid semi-annually
Series Q	$150	October 20, 2009	10.625% paid semi-annually
1988			
Series M	$125	March 20, 1998	10.55% paid semi-annually

The Series A to H debentures are subject to mandatory annual sinking fund provisions. The terms of the Series A to G debentures also provide for annual purchase funds which require the Company to purchase debentures in the market, if available at prices, including costs of purchase, that do not exceed the principal amount plus accrued interest to the date of purchase. The Series I to Q debentures rank equally with the sinking fund debentures but are not subject to sinking or purchase funds.

NOTES AND TERM LOANS

The notes rank and the term loans ranked equally with the debentures.

In January 1988 and December 1987, the Company issued notes denominated in New Zealand dollars. The principal and all future interest payments were hedged through a series of transactions into Canadian funds. The net proceeds of the issues were used to finance the Gas Transmission segment and to retire short-term non-utility debt. The effective interest cost over the term of the issues is fixed at a rate of 10.72% per annum on the portion financing the Gas Transmission segment and is at a floating rate approximating bankers' acceptances on the non-utility portion.

Interest on the term loans was payable at rates approximating bankers' acceptances with options to convert to the London Interbank Offered Rate or Canadian bank prime.

MANDATORY RETIREMENTS

In addition to purchase fund requirements which are applicable in certain circumstances, mandatory retirements of all long-term debt of the Company, as a result of maturities and sinking fund obligations, approximate: 1990—$114.5 million; 1991—$161.9 million; 1992—$139.4 million; 1993—$619.4 million and 1994—$128.3 million.

NOTE 7 • FINANCIAL CHARGES

Year ended December 31 *(millions of dollars)*	**1989**	1988	1987
Interest on long-term debt	**273.6**	277.3	245.8
Amortization of foreign exchange contract premiums	**(21.0)**	(10.6)	(3.7)
	252.6	266.7	242.1
Regulatory deferrals and amortizations	**20.4**	20.5	31.9
Non-regulatory foreign exchange losses	**16.9**	25.4	45.3
Short-term interest and other financial charges	**36.8**	19.2	36.1
	326.7	331.8	355.4

The Company made interest payments of $301.6 million, $284.1 million and $284.9 million for the years ended December 31, 1989, 1988 and 1987, respectively.

NOTE 8 • INCOME TAXES

(a) The geographic components of income before income taxes are summarized below:

Year ended December 31 *(millions of dollars)*	**1989**	1988	1987
Canada	**157.4**	181.1	242.6
Foreign	**103.2**	34.4	57.7
	260.6	215.5	300.3

(b) The provision for income taxes is summarized as follows:

Year ended December 31 *(millions of dollars)*	**1989**	1988	1987
Current			
Canada	**42.8**	84.5	245.2
Foreign	**3.2**	(1.3)	0.6
	46.0	83.2	245.8
Deferred			
Canada	**2.6**	11.9	(121.3)
Foreign	**1.9**	48.1	4.4
	4.5	60.0	(116.9)
	50.5	143.2	128.9

(c) Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and their effect on income taxes are as follows:

Year ended December 31 *(millions of dollars)*	**1989**	1988	1987
Depreciation in excess of capital cost allowance	**(4.8)**	(5.2)	4.7
Previously recorded tax benefits	**—**	43.2	—
Payment of tax liability previously deferred	**—**	—	(61.3)
Deferred amounts	**12.2**	27.4	(56.8)
Unrealized foreign exchange losses	**(3.4)**	(10.1)	(6.6)
Other	**0.5**	4.7	3.1
	4.5	60.0	(116.9)

(d) Income tax expense differs from the amount computed by applying the basic Canadian federal income tax rate to income before income taxes. The reasons for these differences are as follows:

Year ended December 31 *(millions of dollars)*	**1989**	1988	1987
Income before income taxes	**260.6**	215.5	300.3
Less:			
Canadian pipeline income not subject to tax currently *(f)*	**(68.1)**	(22.6)	(30.2)
Equity in after tax net income of non-partnership investments	**(31.2)**	(33.7)	(43.3)
	161.3	159.2	226.8
Federal statutory tax rate	**38.8%**	42.4%	46.6%
Expected income tax expense	**62.6**	67.5	105.7
Non-deductible capital losses	**8.0**	6.4	13.6
Net difference between the federal statutory tax rate and rates of provincial, state and foreign authorities	**(2.0)**	11.7	3.2
Utilization of prior years' operating losses	**(21.1)**	—	—
Previously recorded tax benefits *(1)*	**—**	43.2	—
Non-deductible expenses	**—**	12.3	—
Other	**3.0**	2.1	6.4
Actual income tax expense	**50.5**	143.2	128.9

(1) In 1988, the Company expensed $43.2 million of certain previously recorded deferred U.S. income tax benefits.

(e) At December 31, 1989, United States subsidiaries of the Company had accumulated net operating losses carried forward of approximately U.S. $170.6 million for which the future tax benefits have not been recorded. In addition, accumulated and unrecorded investment tax credits of approximately U.S. $27.7 million were available. The related tax benefits can be carried forward and offset against income tax expense arising in future periods up to the year 2003.

(f) The Company follows the taxes payable method of accounting for those income taxes related to the regulated operations of the Gas Transmission segment. Had the deferral method of tax allocation accounting been prescribed by the NEB for this segment from the date of commencement of operations, additional deferred income taxes in the amount of $420.6 million at December 31, 1989 (December 31, 1988—$391 million) would have been recorded and recovered in tolls to date through the tollmaking process.

(g) The Company made income tax payments of $61.8 million, $79.4 million and $178.5 million during the years ended December 31, 1989, 1988 and 1987, respectively.

NOTE 9 • PREFERRED SHARES

The authorized number of preferred shares issuable in series is unlimited. Details of the Company's cumulative redeemable first preferred shares, all of which are without par value, are:

December 31 *(millions of dollars)*	**1989**	1988	1987
First Preferred Shares			
Cumulative redeemable shares *(1)*			
$2.80 Series (1989 – 574,868; 1988 – 578,468 and 1987 – 580,681)	**28.7**	28.9	29.0
Cumulative redeemable retractable shares			
Series E (1989 – nil; 1988 and 1987 – 1,500,000)	**—**	75.0	75.0
Series H (1989, 1988 and 1987 – 1,000,000)	**50.0**	50.0	50.0
Series I (1989, 1988 and 1987 – 2,200,000)	**110.0**	110.0	110.0
Series J (1989, 1988 and 1987 – 1,600,000)	**80.0**	80.0	80.0
Cumulative redeemable perpetual shares			
Series K (1989 – 150; 1988 and 1987 – nil)	**75.0**	—	—
Cumulative redeemable convertible shares			
Series G (1989 – nil; 1988 and 1987 – 1,000,000)	**—**	100.0	100.0
	343.7	443.9	444.0

(1) During 1989, 1988 and 1987, 3,600; 2,213 and 6,990 shares respectively were purchased by the Company for cancellation.

Additional information pertaining to the Company's preferred shares outstanding as at December 31, 1989 is as follows:

First Preferred Share Issue	Stated Value Per Share	Dividend Rate Per Share	Redemption Dates and Price	Retraction Date *(1)*	Annual Purchase Fund Requirement *(2)*
$2.80 Series	$50	$2.80	redeemable any time at $50.50 per share	Not applicable	2% of aggregate stated value of shares outstanding on previous December 31
Series H	$50	$4.35	redeemable after July 31, 1990 at par	August 1, 1990	3% of aggregate stated capital amount outstanding on August 2, 1990
Series I	$50	$3.90	redeemable after October 31, 1990 at par	November 1, 1990	3% of aggregate stated capital amount outstanding on November 2, 1990
Series J	$50	$3.80	redeemable after July 31, 1992 at par	August 1, 1992 and August 1, 1997	3% of aggregate stated capital amount outstanding on August 2, 1997
Series K	$500,000	$38,400*(3)*	redeemable after October 31, 1994 at par	Not applicable	None

(1) The retractable first preferred shares have a retraction feature which requires the Company, subject to certain conditions, to invite tenders for the purchase of all such shares on the specified dates at the stated value plus accrued and unpaid dividends. The Company may increase the dividend rate on such shares effective on each retraction date.

(2) The Company will be required to set aside in purchase fund accounts up to a maximum of $1.7 million, $5.4 million, $5.4 million, $5.3 million and $5.3 million in each of the years 1990 to 1994, respectively.

(3) As of November 1, 1994, the dividend rate per share will be established by one of: direct negotiation between the Company and the holders of the First Preferred Shares, Series K; bids solicited from investment dealers; or an auction procedure.

In November 1989, the Company issued $75 million of Cumulative Redeemable Perpetual First Preferred Shares, Series K, the proceeds of which were used to redeem all outstanding Cumulative Redeemable Retractable First Preferred Shares, Series E at par.

In June 1989, the Company redeemed the $100 million Cumulative Redeemable Convertible First Preferred Shares, Series G, at par.

In May 1987, the Company redeemed all outstanding Cumulative Redeemable Retractable First Preferred Shares, Series F, at a price of $52 per share and in June 1987, issued $80 million of Cumulative Redeemable Retractable First Preferred Shares, Series J, to repay short-term debt incurred to finance the redemption of such shares.

NOTE 10 • COMMON SHARES

The Company is authorized to issue an unlimited number of common shares of no par value. Details of the Company's common shares are:

	Number of shares	Amount in millions of dollars
Outstanding-January 1, 1987	123,172,534	662.8
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	5,651,737	95.5
Under the stock dividend and share purchase plan	32,179	0.6
Under employee stock purchase plans	385,900	4.9
Under warrant subscription	387	—
Cancellation of common shares	(8,798)	(0.1)
Outstanding-December 31, 1987	129,233,939	763.7
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	2,457,660	32.6
Under public offering and concurrent sale to BCE Inc.	18,870,000	247.3
Cancellation of common shares	(21,753)	(0.3)
Outstanding-December 31, 1988	150,539,846	1,043.3
Issued for cash or cash equivalent		
Under the dividend reinvestment and share purchase plan	**2,101,017**	**31.3**
Under warrant subscription	**1,050**	**—**
Exercise of options	**240**	**—**
Encor distribution	**—**	**(674.4)**
Cancellation of common shares	**(542)**	**—**
Outstanding-December 31, 1989	**152,641,611**	**400.2**

PLAN OF ARRANGEMENT

A Plan of Arrangement was approved by the Supreme Court of Ontario and the Company's common shareholders effective May 2, 1989. The book value of the Company's common shares has been reduced by $674.4 million to reflect the distribution of the Company's oil and gas operations to the Company's common shareholders as at that date. (See Note 18) The expenses of the Plan of Arrangement net of taxes have been charged to Contributed Surplus.

EQUITY ISSUE

On March 2, 1988, the Company completed a public offering of 9,567,000 common shares at a price of $13.25 per common share. The Company concurrently sold 9,303,000 common shares to BCE Inc. ("BCE") at the same price. Gross proceeds from the public offering and sale to BCE were $250.0 million.

NET INCOME PER COMMON SHARE

Net income per common share during the respective years is calculated using the weighted average number of common shares outstanding after provision for dividends on preferred shares, which amounted to $31.8 million, $37.4 million and $38.6 million in the years ended December 31, 1989, 1988 and 1987. The weighted average number of shares outstanding for the years ended December 31, 1989, 1988 and 1987 are 151,740,962, 146,297,633 and 126,267,405, respectively. The calculation of net income per common share on a fully diluted basis assumes conversion of all securities, exercise of all options and exercise of all common share purchase warrants, for the relevant years that such securities were outstanding, if such action would result in dilution of earnings per share. In 1989, 1988 and 1987, the effect of potential dilution was immaterial.

EMPLOYEE STOCK INCENTIVE PLAN

(i) Share Purchase Feature The Company has a Key Employee Stock Incentive Plan ("KESIP") under which the Company provides interest-free loans through a trustee to certain key employees, some of whom are also officers, to purchase common shares of the Company. These loans are repayable within ten years. The outstanding balance of these loans totalled $29.9 million, $35.2 million and $41.4 million at December 31, 1989, 1988 and 1987, respectively. During 1989, 1988 and 1987, nil, 21,300 and 8,570 shares respectively issued under the KESIP were purchased by the Company for cancellation.

(ii) Stock Option Feature In 1988, KESIP was amended to permit the award to certain key employees, some of whom are also officers, options to purchase the Company's common shares. Options may be exercised at a price to be determined at the time the option is awarded. Generally, 20% of the common shares subject to an option may be purchased at the end of each year following the award date of the option. Each share option issued to officers may be accompanied by a share appreciation right which would be exercisable only within 60 days following a share exchange offer for the Company's common shares by BCE, if one were to be made. A share appreciation right entitles the holder to receive a payment from the Company equal to the amount by which the fair market value of the common share on the date when such right is exercised exceeds the exercise price of the accompanying option.

Options	Number of Shares	Exercise Prices	Shares Exercisable
Outstanding—January 1, 1988	nil		
Granted	307,700	$14.70	
Exercised	—	—	
Cancelled or expired	—	—	
Outstanding—December 31, 1988	307,700	$14.70	nil
Granted	**284,900**	**$16.75**	
Exercised	**(240)**	**$14.70**	
Cancelled or expired	**—**	**—**	
Outstanding—December 31, 1989	**592,360**	**$14.70-$16.75**	**61,300**

Certain officers of the Company who received stock options also received share appreciation rights totalling 319,500 shares.

COMMON SHARES RESERVED

The maximum number of common shares of the Company that may be issued under KESIP is 15,000,000 shares subject to an annual limitation of 1,200,000 shares. In addition to the above options, as at December 31, 1989, 338,850 common shares have been set aside and reserved for future issuance.

NOTE 11 • PAYMENTS ON FUTURE GAS SUPPLY

The majority of the Company's gas purchase contracts include provisions which require payments by the Company when it is unable to nominate for delivery specified minimum annual quantities of gas. The contracted supply exceeded demand in past years, and the Company has outstanding direct payments ("take-or-pay payments") of $37.0 million (1988 – $38.2 million) to producers for gas to be delivered in future years. Costs associated with financing such payments are being recovered by the Company through producers' agreements or pursuant to regulations made under the Take-or-Pay Costs Sharing Act (Alberta). Reference should be made to Note 19 (A) for other indirect take-or-pay financing arrangements.

NOTE 12 • DEFERRED CHARGES AND OTHER ASSETS

December 31 *(millions of dollars)*	**1989**	1988
Deferred Amounts		
Subject to regulation	**48.3**	33.6
Not subject to regulation:		
Unamortized foreign exchange losses	**53.9**	94.0
Other deferred amounts	**4.9**	(17.6)
	107.1	110.0
Other Assets		
Development projects	**10.4**	15.7
Other investments	**48.1**	37.6
	58.5	53.3
	165.6	163.3

The deferred amounts subject to regulation are amortized and recovered or refunded in future periods through the tollmaking process.

NOTE 13 • PENSION PLANS

The Company has a non-contributory pension plan and a Supplemental Retirement Plan ("SRP"). The non-contributory pension plan covers all employees who have completed one year of service and provides a defined benefit pension based on length of service and the employee's final average earnings. The SRP provides a supplemental pension benefit to executives upon retirement.

The cost of pension benefits earned by employees is determined using the projected unit credit method pro rated over the service life of the employee group. This cost is charged to operations as services are rendered and reflects management's best estimate of expected plan investment performance, salary escalation, terminations and retirement ages of plan members. Adjustments arising from plan amendments, changes in assumptions and experience gains and losses are amortized on a straight-line basis over the expected average remaining service life of the employee group. The components of the Company's pension expense are detailed as follows:

Year ended December 31 *(millions of dollars)*	**1989**	1988	1987
Pension costs for benefits earned during the current period	**9.9**	9.2	4.7
Amortization of transition amount and other	**3.0**	2.6	0.4
Net pension expense	**12.9**	11.8	5.1

The Company contributes annually to the pension plan the amount that is determined by the actuary. Contributions are intended to provide for benefits attributed to service to date. Obligations under the SRP are not pre-funded, but are paid directly to retired members of the plan. The funded status of the Company's pension plan is as follows:

December 31 *(millions of dollars)*	**1989**	1988
Accumulated benefits based on service to date and current compensation:		
Vested	**116.1**	107.1
Non-vested	**14.7**	15.0
Accumulated benefit obligation	**130.8**	122.1
Additional amounts related to projected salary increases	**49.6**	49.3
Actuarial present value of current accumulated pension benefits	**180.4**	171.4
Pension plan assets at fair value	**145.9**	129.6
Deficit	**34.5**	41.8

Pension plan assets are at average market value using five-year moving average and include marketable equity securities, corporate and government debt securities and mortgages.

The discount rate used in determining the actuarial present value of the projected pension benefit obligations was 8.5%. The rate of the return on pension plan assets was estimated to be 8.5% per annum.

NOTE 14 • RELATED PARTY TRANSACTIONS

Sales revenue from and payments by the Company for gas transportation services to each of Great Lakes and TQM, affiliates of the Company, were as follows:

Year ended December 31 *(millions of dollars)*	**1989**	1988	1987
Gas Sales			
Great Lakes	**153.2**	200.6	168.0
TQM	**—**	42.3	59.7
Charges for Gas Transmission Services			
Great Lakes	**125.8**	132.0	155.3
TQM	**70.7**	72.5	80.3

Amounts due from and to associated companies were as follows:

December 31 *(millions of dollars)*	**1989**	1988
Accounts receivable	**2.7**	2.4
Accounts payable	**16.6**	17.2

The recovery in the Company's regulated cost of service of charges by Great Lakes and TQM for gas transmission services is subject to the NEB's tollmaking process. In 1989, TQM did not buy gas directly from the Company.

Reference should be made to Note 10 regarding loan transactions between the Company and certain of its employees for the purchase of common shares.

As at December 31, 1989, BCE held approximately 49% of the Company's outstanding common shares and is a participant, as to a portion of its common shares, in the Company's dividend reinvestment and share purchase plan. Reference should be made to Note 10 with respect to common shares sold to BCE during 1988.

NOTE 15 • RESTRICTION ON DIVIDENDS

Declaration of dividends on both preferred and common shares is restricted under certain preferred share provisions and under several debt instruments. At December 31, 1989, under the most restrictive provisions, approximately $250 million was available for the payment of dividends on common shares.

NOTE 16 • DECREASE / (INCREASE) IN WORKING CAPITAL FROM CONTINUING OPERATIONS

A decrease in working capital results in an increase in cash generated internally. An increase in working capital results in a reduction in cash generated internally. The following table sets forth the changes in the components of working capital from continuing operations:

Year ended December 31 *(millions of dollars)*	**1989**	1988	1987
Accounts receivable	**25.7**	33.0	(37.6)
Inventories	**(3.8)**	(5.6)	33.3
Accounts payable	**24.6**	34.5	0.1
Income taxes payable	**(20.0)**	(63.4)	85.8
Interest accrued	**10.3**	(7.3)	3.7
	36.8	(8.8)	85.3

NOTE 17 • INVESTMENT AND ASSET PROVISIONS

In 1988, the Company determined that the carrying value of certain assets should be reduced due to the uncertainty of their ultimate recovery and as a result recorded a provision totalling $29.0 million or 20 cents per share before and after income taxes. This provision included $25.0 million related to the Company's investment in international pipeline inspection services and $4.0 million for other assets. No such provisions were required in 1989 or 1987.

NOTE 18 • DISCONTINUED OIL AND GAS OPERATIONS

In 1979, the Company made its first significant investment in oil and gas properties through a wholly owned subsidiary, TCPL Resources Ltd., which acquired an undivided interest in a portion of the onshore oil and gas properties of Dome Petroleum Limited. In 1984, the Company purchased all of the assets of Wessely Energy Corporation, a United States oil and gas corporation. Effective December 31, 1987, the Company acquired approximately 97% of Encor Energy Corporation Inc. (''Encor''). The remainder of Encor was acquired in 1988.

In December 1988, the Company sold all of its United States oil and gas properties held by its wholly owned subsidiary Wessely Energy Company, effective July 1, 1988, for a total consideration of approximately U.S. $125 million. This disposition resulted in a loss, before and after income taxes, of $52.7 million.

On May 2, 1989, the Company completed a Plan of Arrangement. Under the terms of the Plan of Arrangement, the Company combined its remaining oil and natural gas exploration, development and production business under one corporate entity, Encor Inc. An integral part of the Plan of Arrangement was the refinancing of Encor Inc. which resulted in the Company receiving $493.5 million thereby reducing its investment to $674.4 million. The common shares of Encor Inc. were then distributed to the Company's common shareholders eliminating the Company's investment.

As a result, the Company's former oil and gas interests have been classified as discontinued operations and the financial statements reflect both continuing and discontinued operations.

The following sets out the summarized financial information for discontinued oil and gas operations:

December 31 *(millions of dollars)*	1988
Assets	2,152.6
Liabilities	(998.9)
Shareholders' equity	1,153.7

Year ended December 31 *(millions of dollars)*	**1989**	1988	1987
Operating revenues	**107.4**	324.1	194.3
Costs and expenses	**120.8**	352.3	205.7
Operating loss	**13.4**	28.2	11.4
Loss on disposal	**—**	52.7	—
Net loss	**13.4**	80.9	11.4

The Company followed the full cost method of accounting for its oil and gas operations and used the unit-of-production method to calculate depletion.

NOTE 19 • COMMITMENTS AND CONTINGENCIES

(A) GAS SUPPLY

During 1982 and 1983, the Company concluded arrangements (referred to as the "Topgas Programs") with syndicates of banks and substantially all of its producers to finance its take-or-pay payments incurred up to and including the contract year ended October 31, 1983. Pursuant to the Topgas Programs, Alberta corporations controlled by the banking syndicates (the "Topgas Companies") advanced approximately $2.7 billion to these producers in respect of these take-or-pay payments. Pursuant to contractual arrangements, recovery of the advances commenced in 1984 and is being effected in instalments by the nomination for delivery of prepaid gas. Scheduled recovery of the prepaid gas for the Topgas Programs will be completed not later than 1994. As at December 31, 1989, approximately $1.2 billion ($1.45 billion as at December 31, 1988) remained outstanding. Interest costs associated with the advances are being recovered by the Company through producers' agreements or pursuant to regulations made under the Take-or-Pay Costs Sharing Act (Alberta).

On January 10, 1990 the Topgas Companies completed a refinancing of their debt obligations where under they issued debentures and commercial paper to investors by way of private placement. Proceeds from these issues were used to completely repay the bank syndicates. The reason for the refinancing was to reduce interest carrying costs for the producers who are participants in the Topgas Programs.

In addition, the indemnities that the Company had given the Topgas Companies against losses arising due to the inability or failure of a producer to deliver prepaid gas have been reduced from $360 million to the greater of 10% of the advances outstanding and $25 million. As of January 10, 1990, the indemnities would total approximately $120 million.

(B) GUARANTEE OF DEBT OF ENCOR

Prior to the Plan of Arrangement (see Note 18), the Company had guaranteed a portion of the outstanding debt of Encor. As at December 31, 1989, approximately $69 million of this debt continues to be guaranteed by the Company. The Company receives a fee of 0.75% per annum on the aggregate amount of such indebtedness outstanding from time to time until maturity.

(C) FINANCING OF NORTHERN BORDER PIPELINE COMPANY

The debt financing of the Northern Border pipeline was provided by a syndicate of banks in a total amount of U.S. $874 million. As at December 31, 1989, U.S. $442.3 million is outstanding.

Under the terms of this debt financing, the Company may be required to make available to the Northern Border partnership funds sufficient to enable the partnership to fully amortize the outstanding balance at the final maturity date in 1996. If the Company were required to make any payment pursuant to the foregoing, it would have recourse against the partnership.

The Operator for the partnership and the agents for a syndicate of banks have executed a financing plan under which the outstanding debt balance of the Northern Border pipeline will be refinanced in 1990 and will exclude the requirement whereby the Company may have to make funds available to the Northern Border partnership. The Operator anticipates that the refinancing will be completed in the first quarter of 1990.

(D) FOOTHILLS PIPE LINES (SASK.) LTD.

Pursuant to a Transportation Service Agreement, the Company may be required to pay certain minimum charges in connection with the Foothills (Sask.) system until October 31, 1997. Current transportation contracts, extending to or beyond October 31, 1997, are well above the level at which the Company could be called upon to perform under this Agreement.

(E) RELOCATION EXPENSES

During 1989, the Company announced its intention to relocate its offices from Toronto to Calgary. The Company estimates the cost to be approximately $50 million before tax. The estimated amount that will not be recovered through tolls is $6.5 million before tax and has been expensed in 1989. It is the Company's intention to apply to the NEB to recover the remainder of these costs through tolls.

(F) CAPITAL COMMITMENTS

The Company expects to spend the following with respect to its mainline facilities and for equity contributions to its investments and projects.

(millions of dollars)	1990
Gas Transmission segment	674
Great Lakes Gas Transmission Company	36
Iroquois Gas Transmission System	9
Ocean State Power Project	67

NOTE 20 • SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GAAP

The Company's Consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and practices which are different in some respects from those applicable in the United States. The following sets forth the reconciliation of these differences:

(a) Net income/(loss) in accordance with U.S. GAAP:

Year ended December 31 *(millions of dollars except per share amounts)*	**1989**	1988	1987
Income from continuing operations as reported	**210.1**	72.3	171.4
U.S. GAAP adjustments:			
Foreign currency translation (i)	**40.1**	158.7	(62.4)
Income taxes (ii)	**(21.1)**	43.2	–
Effects of tolls decisions (iii)	**–**	–	(8.4)
Other	**–**	1.7	(1.1)
Income from continuing operations in accordance with U.S. GAAP	**229.1**	275.9	99.5
Loss from discontinued operations in accordance with U.S. GAAP (iv)	**(3.0)**	(79.4)	(183.0)
Income/(loss) before extraordinary item	**226.1**	196.5	(83.5)
Reduction of income taxes from the application of prior years' losses (ii)	**21.1**	–	–
Net income/(loss) for the period in accordance with U.S. GAAP	**247.2**	196.5	(83.5)
Net income/(loss) applicable to common shares in accordance with U.S. GAAP	**215.4**	159.1	(122.1)
Per common share data:			
Income from continuing operations	**$ 1.30**	$ 1.63	$ 0.48
Loss from discontinued operations	**(0.02)**	(0.54)	(1.45)
Income/(loss) before extraordinary item	**1.28**	1.09	(0.97)
Extraordinary item	**0.14**	–	–
Net income/(loss)	**$ 1.42**	$ 1.09	$ (0.97)

(i) Under Canadian GAAP, the Company defers foreign exchange losses with respect to its unhedged borrowings in foreign currencies and amortizes them over the remaining life of such debt. Under U.S. GAAP, such gains and losses are immediately recognized in income in the period.

(ii) Under U.S. GAAP, the reduction of income taxes arising from the application of prior years' losses would be reported separately as an extraordinary item in 1989. Under Canadian GAAP the Company expensed $43.2 million in 1988 with respect to deferred U.S. tax benefits previously recorded. Under U.S. GAAP no benefits had been recorded and therefore no provision was necessary.

(iii) As a result of the 1987 NEB tolls decision relating to 1986, the Company, under Canadian GAAP, made an adjustment to its previously reported 1986 earnings of $8.4 million. Under U.S. GAAP, this would have been included in 1987 net income.

(iv) Differences arise from the application of the full cost method of accounting and related ceiling test rules under Canadian GAAP from those prescribed under the Securities and Exchange Commission rules.

(b) As a result of the Canadian/U.S. GAAP reconciliation and additional disclosure requirements under U.S. GAAP, the Statement of Consolidated Financial Position changes are:

	Amount reported under Canadian GAAP		Approximate amount as adjusted to conform with U.S. GAAP	
December 31 *(millions of dollars)*	**1989**	1988	**1989**	1988
Discontinued Oil and Gas Operations	**—**	1,153.7	**—**	604.8
Deferred Charges and Other Assets	**165.6**	163.3	**112.4**	70.0
Common Shareholders' Equity	**1,169.2**	1,766.1	**1,086.1**	1,088.7

(c) Additional disclosure required under U.S. GAAP:

(i) Under U.S. GAAP, Common Shareholders' Equity has been reduced by the amounts receivable from employees in connection with KESIP.

(ii) In December 1987, the Financial Accounting Standards Board (''FASB'') issued Statement of Financial Accounting Standards No. 96, ''Accounting for Income Taxes''. This statement is effective for fiscal years beginning after December 15, 1991. The Company has not calculated the impact that the adoption of this new standard will have on its financial position and results of operations nor has it determined whether it will adopt this change by retroactive restatement or prospectively.

(iii) The components of the Company's pension expense are detailed as follows:

Year ended December 31 *(millions of dollars)*	**1989**	1988	1987
Current service cost	**6.4**	5.9	4.2
Interest on accrued benefits	**14.4**	13.1	8.0
Expected return on pension assets	**(10.9)**	(9.8)	(7.4)
Amortization of prior service cost	**2.4**	8.7	–
Amortization of transition amount	**(0.3)**	(0.5)	(0.3)
Net pension expense	**12.0**	17.4	4.5

There is no significant impact on income for any difference between Canadian and U.S. GAAP pension expense, as a major portion of the difference would be deferred and recognized in income in the future as a result of the tollmaking process.

The funded status of the Company's pension plan for U.S. GAAP purposes is as follows:

December 31 *(millions of dollars)*	**1989**	1988
Projected benefit obligation	**180.4**	171.4
Pension assets-market value	**157.1**	134.9
Deficit	**(23.3)**	(36.5)
Unrecognized net (gain)/loss	**(11.3)**	2.1
Unrecognized prior service cost	**27.2**	28.4
Unrecognized net transitional assets	**(6.2)**	(6.5)
Pension liability	**(13.6)**	(12.5)

The amount of deficit reported above is less than the amount calculated under Canadian GAAP as a result of differences in the valuation of pension assets. Under U.S. GAAP, pension assets are at market value, whereas under Canadian GAAP such assets are at an average market value using five-year moving average.

QUARTERLY CONSOLIDATED FINANCIAL DATA *(Unaudited)*

(A) SELECTED QUARTERLY FINANCIAL DATA

The following sets forth selected quarterly financial data for the four quarters of 1989 and 1988 in millions of dollars except for per share amounts. Revenues and operating income include only those of continuing operations.

Three Months Ended	Mar. 31	June 30	Sept. 30	Dec. 31
1989				
Revenues	**920.4**	**677.5**	**686.2**	**798.8**
Operating income	**110.1**	**103.9**	**110.6**	**103.4**
Net income	**34.0**	**44.8**	**63.8**	**54.1**
Net income applicable to common shares	**24.7**	**36.2**	**56.7**	**47.3**
Per common share data:				
Net income applicable to common shares	**$0.16**	**$0.24**	**$0.38**	**$0.31**
1988				
Revenues	929.6	773.7	682.9	882.5
Operating income	117.7	124.7	118.0	107.2
Net income/(loss)	27.5	27.7	(22.2)	(41.6)
Net income/(loss) applicable to common shares	18.2	18.4	(31.6)	(51.0)
Per common share data:				
Net income/(loss) applicable to common shares	$0.13	$0.13	$(0.23)	$(0.34)

(B) PRICE RANGE OF COMMON SHARES

The Company's common shares are listed on the Vancouver, Alberta, Winnipeg, Toronto, Montreal and New York stock exchanges. The Toronto Stock Exchange is the principal market on which the Company's common shares are traded. The following table sets forth the quarterly high and low sales prices of the Company's common shares as reported by The Toronto Stock Exchange and New York Stock Exchange respectively:

	Toronto Stock Exchange		New York Stock Exchange	
	High	Low	High	Low
	(Cdn.$)		*(U.S.$)*	
1989				
First Quarter	**$16.25**	**$14.50**	**$13.63**	**$12.00**
Second Quarter				
(before the Encor Inc. distribution)	**16.63**	**15.88**	**14.00**	**13.38**
(after the Encor Inc. distribution)	**15.00**	**13.88**	**12.63**	**11.75**
Third Quarter	**17.50**	**14.25**	**14.63**	**12.00**
Fourth Quarter	**17.75**	**16.13**	**15.25**	**13.75**
1988				
First Quarter	$16.25	$13.00	$12.38	$10.25
Second Quarter	15.38	13.00	12.38	10.50
Third Quarter	14.13	12.50	11.75	10.13
Fourth Quarter	15.75	12.75	13.25	10.25

	1989	1988	1987	1986	1985
FINANCIAL					
(millions of dollars except where indicated)					
Operating Results					
Revenues	**3,082.9**	3,268.7	3,161.1	3,964.6	4,419.6
Operating Income	**428.0**	467.6	521.0	518.3	550.6
Income from Continuing Operations	**210.1**	72.3	171.4	197.5	272.8
Loss from Discontinued Operations	**(13.4)**	(80.9)	(11.4)	(145.3)	(110.3)
Net Income/(Loss) for the Year	**196.7**	(8.6)	160.0	52.2	162.5
Net Income/(Loss) Applicable to Common Shares	**164.9**	(46.0)	121.4	9.4	117.7
Assets					
Plant, Property and Equipment *(net)*					
Gas Transmission	**3,055.4**	2,485.5	2,459.4	2,474.9	2,511.1
Gas Sales, Marketing and Other	**88.6**	89.5	120.9	103.5	95.3
Total Assets	**4,623.4**	5,022.9	5,356.6	5,332.8	5,372.6
Capitalization					
Long-Term Debt	**2,443.7**	2,137.2	2,308.8	2,077.0	2,138.8
Preferred Shares					
Subject to mandatory redemption	**240.0**	315.0	315.0	315.0	315.0
Not subject to mandatory redemption	**103.7**	128.9	129.0	129.4	130.0
Common Shareholders' Equity	**1,169.2**	1,766.1	1,678.3	1,649.5	1,373.5
Cash Flow Data					
Funds generated from continuing operations	**289.7**	286.5	246.2	376.7	383.3
Capital expenditures	**671.0**	146.4	96.2	72.2	80.2
Common Share Statistics					
Net Income/(Loss) per Common Share					
Income from Continuing Operations	**$ 1.18**	$ 0.24	$ 1.05	$ 1.40	$ 2.35
Loss from Discontinued Operations	**$ (0.09)**	$ (0.55)	$ (0.09)	$ (1.31)	$ (1.14)
Net Income/(Loss) for the Year	**$ 1.09**	$ (0.31)	$ 0.96	$ 0.09	$ 1.21
Dividends declared per common share	**$ 0.68**	$ 0.68	$ 1.12	$ 1.12	$ 1.12
Funds generated from continuing operations per average common share	**$ 1.91**	$ 1.96	$ 1.95	$ 3.42	$ 3.95
Outstanding-year end *(millions)*	**152.6**	150.5	129.2	123.2	98.9
-weighted average *(millions)*	**151.7**	146.3	126.3	110.2	97.0
Number of shareholders, December 31	**19,254**	22,636	24,062	24,259	21,143
Common equity per share at year end	**$ 7.66**	$11.73	$12.99	$13.39	$13.89
Number of Regular Employees					
December 31	**1,765**	1,939	2,016	2,026	1,945
In Accordance with U.S. GAAP					
Income from Continuing Operations	**229.1**	275.9	99.5	107.0	121.4
Loss from Discontinued Operations	**(3.0)**	(79.4)	(183.0)	(379.3)	(120.0)
Net Income/(Loss) for the Year	**247.2**	196.5	(83.5)	(272.3)	1.4
Net Income/(Loss) Applicable to Common Shares	**215.4**	159.1	(122.1)	(315.1)	(43.4)
Net Income/(Loss) per Common Share					
Income from Continuing Operations	**$ 1.30**	$ 1.63	$ 0.48	$ 0.58	$ 0.79
Loss from Discontinued Operations	**$(0.02)**	$(0.54)	$(1.45)	$(3.44)	$(1.24)
Net Income/(Loss) for the Year	**$ 1.42**	$ 1.09	$(0.97)	$(2.86)	$(0.45)
Common Shareholders' Equity	**1,086.1**	1,088.7	781.6	988.5	420.1
Common equity per share at year end	**$ 7.12**	$ 7.23	$ 6.05	$ 8.02	$ 4.25
OPERATING					
Gas transmission volumes delivered *(billions of cubic feet)*					
Annual	**1,418.0**	1,345.6	1,152.0	1,167.9	1,205.1
Maximum per day	**5.0**	5.0	4.3	4.6	4.4
Kilometres of pipeline-including loop line	**11 039**	10 675	10 600	10 593	10 593
Compressor power *(kilowatts)*	**1 059 400**	1 027 400	1 023 200	1 020 500	1 020 500

DIRECTORS

James M. Cameron
Director, TransCanada PipeLines Limited, Toronto

John H. C. Clarry, Q.C.
Counsel, McCarthy Tétrault, Toronto

J. V. Raymond Cyr, O.C.
Chairman, President and Chief Executive Officer BCE Inc., Montreal and Chairman, TransCanada PipeLines Limited, Toronto

Robert E. Dineen, Jr.
Partner, Shearman and Sterling, New York

A. Jean de Grandpré, C.C., Q.C. *
Founding Director & Chairman Emeritus, BCE Inc., Montreal and Legal Counsel, Lavery O'Brien, Montréal

Russell E. Harrison *
Director, Canadian Imperial Bank of Commerce, Toronto

Robert H. Jones *
Chairman, Investors Group Inc., Winnipeg

Gerald J. Maier
President and Chief Executive Officer, TransCanada PipeLines Limited, Calgary

Gordon P. Osler
Corporate Director, Toronto

Herbert C. Pinder
President, Saskatoon Trading Company, Limited, Saskatoon

Harry G. Schaefer *
Deputy Chairman of the Board and Chief Financial Officer, TransAlta Utilities Corporation, Calgary

J. Stuart Spalding *
Executive Vice-President, Finance, BCE Inc., Montreal

Neil J. Stewart
Corporate Director, Calgary

Allan R. Taylor
Chairman and Chief Executive Officer, The Royal Bank of Canada, Toronto

**Member of the Audit Committee*

PRINCIPAL OFFICERS

J. V. Raymond Cyr, O.C.
Chairman

Gerald J. Maier
President and Chief Executive Officer

Mitchell T. G. Graye
Chief Financial Officer

George M. Hugh
Chief Operating Officer

C. Kennedy Orr
Group Vice-President

Kenneth G. Whiteside
Chief Administrative Officer

Gavin J. Couper
Senior Vice-President, Engineering and Operations

Derek E. Henwood
Senior Vice-President

H. Fred Button
Vice-President

Doron J. Cohen
Vice-President, Information Systems

Artel A. Douloff
Vice-President, Transportation

Michael Durnin
Vice-President, Engineering

Brian F. Hill
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Wayne E. Lunt
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James W. S. McOuat, Q.C.
Vice-President, Pipeline Legal & Regulatory Affairs

David E. Reid
Vice-President, Operations

David Russell
Vice-President

Raymond F. Sim
Vice-President and Corporate Secretary

Ray T. Smith
Vice-President, Control

John W. Stinson
Vice-President, Human Resources

Arthur A. Wilkins
Vice-President, Gas Reserves

John W. Wouters
Vice-President, Public Affairs

WHOLLY-OWNED SUBSIDIARIES

Western Gas Marketing Limited

Gerald J. Maier
Chairman

Craig R. Frew
President

John Anthony
Vice-President, Marketing

R. Glen Caughey
Vice-President, Canadian Sales

Murray A. Ross
Vice-President, U.S. Sales

David G. Hanson
Vice-President, U.S. Gas Supply

Barry G. Luft
Vice-President, Gas Supply

William A. Scotland
Vice-President, Government Relations and Administration

Cancarb Limited

A. Russell Steele
President and Chief Operating Officer

Robert D. Hale
Vice-President

International Pipeline Engineering Limited (Pipetronix Division)

Donald C. Ingram
President

Pipetronix Inc.

Donald C. Ingram
President

Dale E. Well
Vice-President

TCPL Holdings B.V.

Robert G. Wall
Managing Director

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Telephone (214) 954-1788

Subsidiaries

Cancarb Limited

International PipeLine Engineering Limited

Pipetronix GmbH

Pipetronix Inc.

TCPL Holdings B.V.

TCPL Power Ltd.

TransCan Holdings Inc.

TransCanada Border PipeLine Ltd.

TransCanada Iroquois Ltd.

TransCanada PipeLine Alaska Ltd.

TransCanada PipeLine USA Ltd.

TransCanada PipeLines Finance USA Ltd.

Western Gas Marketing Limited

Western Gas Marketing USA Ltd.

Affiliates

Great Lakes Gas Transmission Company

Trans Québec & Maritimes Pipeline Inc.

Common Shares

Transfer Agents and Registrars:
Montreal Trust Company,
Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver,
Bank of Montreal Trust Company,
New York

Preferred Shares

Transfer Agent and Registrar:
$2.80 cumulative redeemable
first preferred shares
National Trust Company,
Montreal, Toronto, Winnipeg,
Calgary and Vancouver

Cumulative redeemable
retractable first preferred shares
series H, series I and series J
The Royal Trust Company,
Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

Cumulative redeemable
perpetual first preferred shares
series K are transferable at the
office of the company.

Bonds

Trustee:
National Trust Company, Toronto

Registrar Canadian Series:
9 1/4% and 8 7/8% first mortgage
pipe line bonds, National Trust
Company, Montreal, Toronto,
Winnipeg, Calgary and Vancouver

Co-Registrars U.S. Series:
16% and 16 3/4% first mortgage
pipe line bonds, National Trust
Company and Morgan Guaranty
Trust Company of New York

Co-Registrars U.K. Series:
16 1/2% first mortgage pipe line
bonds, National Trust Company
and The Royal Bank of Scotland
plc, London, England

Debentures

Trustee and Registrar:
Central Guaranty Trust Company,
Montreal, Toronto, Winnipeg,
Calgary and Vancouver

10% series A sinking fund,
9 3/4% series B sinking fund,
9% series C sinking fund,
8 7/8% series D sinking fund,
9% series E sinking fund,
11 1/2% series F sinking fund,
9.60% series G sinking fund,
18% series H sinking fund,
11.70% series I,
11.40% series J,
10.45% series K,
10.80% series L,
10.55% series M,
11.10% series N,
10.50% series O,
10.50% series P,
and 10.625% series Q debentures

Stock Exchanges

Common and preferred shares are
listed on the Toronto, Montreal,
Vancouver, Alberta and Winnipeg
stock exchanges. The common
shares are also listed on the New
York Stock Exchange.

Stock Symbols

Common shares: TRP
$2.80 cumulative redeemable first
preferred shares: TRP.PR.A
Cumulative redeemable
retractable first preferred shares:
Series H: TRP.PR.H
Series I: TRP.PR.I
Series J: TRP.PR.J

Form 10-K

The company's report to the
Securities and Exchange
Commission on Form 10-K is
available to common shareholders
at no charge by writing to:

Stock and Debt Services
TransCanada PipeLines
P.O. Box 54
Commerce Court West
Toronto, Ontario
M5L 1C2

Si vous désirez vous procurer un exemplaire de ce rapport en français, veuillez vous adresser à TransCanada PipeLines, l'Administration du Capital-Action et de la Dette.

INVESTMENT INFORMATION FOR FOREIGN INVESTORS

In Canada there are no restrictions on the export or import of capital which affect the company's remittances of dividends, interest or other payments to its non-resident security holders.

Dividends paid by the company to shareholders outside of Canada are subject to Canadian non-resident withholding tax. This tax is generally at the rate of 15% for the United States and other countries where Canadian tax treaties apply and 25% for non-treaty countries.

Interest payable on the company's debt securities held by non-residents may be subject to Canadian withholding tax depending upon the terms and provisions of such securities.

DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

This Plan allows common and preferred shareholders of the company to purchase additional common shares of the company by reinvesting their cash dividends and by making optional cash payments.

Shares acquired through the Plan with reinvested dividends are purchased at 95% of the average market price and shares acquired with optional cash payments are purchased at 100% of the average market price. There are no brokerage commissions payable under the Plan and all administrative costs of the Plan are paid by the company.

Shareholders who wish more information regarding the Plan should contact the Stock and Debt Services department.

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